



# **PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE**

**102<sup>ND</sup> REPORT TO THE PARLIAMENT**

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## **Report on the 2011-12 Budget Estimates — Part Three**

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# **PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE**

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**Parliament of Victoria**  
**Public Accounts and Estimates Committee**

*Report on the 2011-12 Budget Estimates — Part Three*

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The Committee's report on the 2011-12 budget estimates has been tabled in three parts.

### **Part One**

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Part One included:

- an analysis of the key aspects of the 2011-12 Budget, including a number of recommendations;
- an index of key matters raised at the budget estimates hearings; and
- details of further information to be provided and questions on notice for each portfolio.

### **Part Two**

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Part Two examined the departmental performance measures in the budget papers, with a number of recommendations for improvements. This examination included a review of the performance measures that the Government has proposed discontinuing or substantially altering in the 2011-12 Budget.

### **Part Three**

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Part Three provides a detailed analysis, including recommendations, relating to the budget estimates for 2011-12 and the forward estimates. The analysis is based on:

- the budget papers;
- the budget estimates hearings;
- departments' responses to questionnaires from the Committee;
- ministers' responses to questions on notice and requests for further detail; and
- any other relevant material.

### **Transcripts and questionnaire responses**

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In previous years, the transcripts of the budget estimates hearings, the departments' responses to the Committee's budget estimates questionnaire and the Government's responses to the previous report were published in the Committee's report. This year, the Committee has decided not to print these in the report, but they are all available online at the Committee's website:

**[www.parliament.vic.gov.au/paec](http://www.parliament.vic.gov.au/paec)**



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# **PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE MEMBERSHIP — 57<sup>TH</sup> PARLIAMENT**

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Philip R. Davis MP (Chairman)

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Neil Angus MP

Jill Hennessy MP

David Morris MP

David O'Brien MLC

Robin Scott MP

For this inquiry, the Committee was supported by a secretariat comprising:

|                           |                     |
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| Senior Research Officer:  | Christopher Gribbin |
| Research Officers:        | Ian Claessen        |
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| Consultant:               | Peter Rorke         |
| Business Support Officer: | Melanie Hondros     |
| Desktop Publishers:       | Justin Ong          |
|                           | Kentia Boyle        |



## 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.



# CHAIRMAN'S FOREWORD

I am very pleased to table this final part of the Committee's *Report on the 2011-12 Budget Estimates*. The three parts of this report represent almost six months of work investigating and analysing the budget estimates. At the end of this period, we have a substantial report, covering a wide range of issues, that contains 90 recommendations designed to enhance Government reporting in the future.

The Committee's report has had a strong focus on the budget papers this year. I think this has been particularly timely given that this is the first budget of the Baillieu Government. The change of government presents an opportunity for a review of the State's finances and thorough reconsideration of accountability mechanisms, especially in the light of the Government's commitment to improving transparency and accountability.

The budget papers are a key component of the Government's accountability mechanisms. They provide Parliament and the community with details of the Government's plans for the next year and beyond. They also provide the costs and timings of new initiatives, against which progress can be monitored. The budget papers also provide performance measures by which the Government's achievements can be measured. The Committee is interested that these be clear and appropriate, to ensure that all sectors of Government are properly accountable for the funding that they receive.

As the first budget of the Baillieu Government, the 2011-12 budget papers have provided details for the first time of a number of policies, programs and projects that the Government is supporting. Ensuring that there is an appropriate level of detail in the budget papers has therefore also been a key concern of mine and the Committee in examining this year's budget papers.

The Committee has structured this report somewhat differently to the way that the Committee of the previous Parliament structured it. Part One, as in previous years, primarily provides an index of the matters raised at the public hearings. Part Two this year is a new part, focused on the departmental performance measures in the budget papers. Part Three, as in previous years, analyses the Budget according to a number of themes. Some of these themes are new in 2011-12. For the first time the Committee has included an overall analysis of the new output initiatives released in the Budget. The Committee has also added a section examining the nature of the expenses expected to be incurred through the budget period. These new ways of analysing the Budget have brought to light a number of issues that have not been examined previously by the Committee.

Many people have contributed to the making of this report and I would like to acknowledge their work. The Presiding Officers, Premier, Deputy Premier, Treasurer, Assistant Treasurer, Attorney-General and ministers have all contributed through budget estimates questionnaires, public hearings and responses to questions on notice and requests for further information. In this, they have been helped by many departmental staff, including the departmental secretaries. The information that the Committee acquires through these sources is essential in producing this report, and the Committee is very grateful for the time and effort that these people put into providing it.

I would like to thank my fellow Committee members too for their input into this report and the collaborative way in which they have provided it.

On behalf of the Committee, I would also like to thank the Committee's secretariat staff, for their support throughout the inquiry. I would like to particularly acknowledge their hard work and assistance in the preparation of this substantial report in a relatively short period of time.

I commend this report to the Parliament and the Government both for its useful analysis and for its suggestions about potential improvements. It is my hope that the recommendations will be helpful to the Government in its intention to improve transparency and accountability.

**Philip R. Davis MP**  
**Chairman**

# RECOMMENDATIONS

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- Recommendation 1.** In future years, ministers ensure that departments' budget estimates questionnaires are returned by the specified deadline.
- Recommendation 2.** The Government ensure that, in the future, responses to questions on notice and further information agreed to be provided are supplied in a timely manner.
- Recommendation 3.** As more formal policies are released by the Government, additional information be provided in the service delivery budget paper detailing the relationship between departmental outputs, new initiatives and Government policies and objectives.
- Recommendation 4.** Future service delivery budget papers explain the impact on each department's outputs of changes in the amounts of funding available for the department.
- Recommendation 5.** Future service delivery budget papers provide commentary on any significant differences between the total income from transactions and the Parliamentary authority for resources.
- Recommendation 6.** Future service delivery budget papers include the 'expenses from transactions' section of the departmental operating statements, along with commentary on how changes in expenditure relate to changes in the outputs.
- Recommendation 7.** Future 'statement of finances' budget papers include significantly more information about the terms used in the financial statements and more explanations for the line items, as has occurred previously, through a glossary and/or an expanded 'statement of significant accounting policies and forecast assumptions'.
- Recommendation 8.** Future 'statement of finances' budget papers list all controlled entities which have been consolidated for the purposes of the report.
- Recommendation 9.** Future 'statement of finances' budget papers include a high-level analysis for each department of its operating statements, including explanations for significant variations from the prior year.

- Recommendation 10.** Future budget papers provide detail about the geographic distribution of new initiatives, including:
- (a) detailing the major initiatives and total funding for each specific region of Victoria (including metropolitan Melbourne);
  - (b) linking those initiatives to the key issues affecting each region; and
  - (c) differentiating funding for regional cities from funding for rural Victoria.
- Recommendation 11.** The Government consider modifying future budget papers to meet those criteria set out in Table 3.4 that it currently only partially meets.
- Recommendation 12.** The Department of Treasury and Finance develop and implement processes for identifying the cost of producing the budget papers in future years.
- Recommendation 13.** In addition to quantifying the funding provided for new initiatives released in that year's budget, future budget papers also indicate the expected expenditure in that year on initiatives from previous budgets and the amount of departments' base funding, and reconcile these amounts with the total expenditure on outputs.
- Recommendation 14.** Future budget papers explain the reasons for significant changes in the total value of new output initiatives in that budget compared to previous budgets.
- Recommendation 15.** Future budget papers list new funded activities as separate output initiatives when substantial amounts of funding are provided and where it is possible and meaningful to cost the activity separately from other activities.
- Recommendation 16.** Where asset initiatives from previous budgets are re-focused so that significantly different products are being delivered, this re-focusing should be clearly stated in the budget papers.
- Recommendation 17.** The Department of Justice's benefit analysis and evaluation of the deployment of the additional police and protective service offices be undertaken in a timely manner and the results published on the Department's website.

- Recommendation 18.** The Department of Planning and Community Development develop performance measures for the Regional Growth Fund which measure its performance relative to the stated intended outcomes. These measures should be included in the 2012-13 budget papers and beyond.
- Recommendation 19.** Longer-term performance measures be developed to assess the effectiveness of the Regional Growth Fund relative to its long-term goals. The performance of the fund relative to these measures should be evaluated and publicly reported after an appropriate length of time.
- Recommendation 20.** Departmental annual reports disclose any impacts on service delivery of budget savings measures.
- Recommendation 21.** For initiatives where funding is expected to reduce in real terms over the forward estimates but where demand is not expected to decline, the Government should indicate in the budget papers whether it is expecting departments to achieve efficiencies or reduce services.
- Recommendation 22.** If the Government intends to encourage departments to achieve efficiencies by providing a number of initiatives with the same (nominal) amount of funding over the forward estimates period, the budget papers should clearly indicate that this is the Government's intention, quantify the savings target in real terms and provide details of how departments are expected to achieve these efficiencies.
- Recommendation 23.** Future budget papers clearly identify initiatives that continue programs released in previous budgets.
- Recommendation 24.** Details of the programs and departments from which funding is reprioritised in a budget, along with the impact of reduced funding in those areas, should be provided in future budget papers or the supporting budget data sets located on the Department of Treasury and Finance's website.
- Recommendation 25.** Rather than using the terms 'asset' 'infrastructure' and 'capital' interchangeably throughout the budget papers, the Department of Treasury and Finance adopt a common term for budgetary reporting purposes. If the use of a number of terms is to be continued, they should be explained in a glossary to the budget papers.

- Recommendation 26.** The Department of Treasury and Finance disclose in the budget papers a reconciliation of the differing estimates for annual asset spending that are presented throughout the budget papers, including definitions of the terms used to describe the components.
- Recommendation 27.** To assist with reconciling figures, the Department of Treasury and Finance include in Budget Paper No.4 a line item for each department that aggregates the TEI, the estimated expenditure up to the budget year, the estimated expenditure in the budget year and the remaining expenditure on:
- (a) asset projects with a TEI of less than \$250,000;
  - (b) projects where the planned expenditure in the budget year is less than \$75,000; and
  - (c) capital grants paid to other sectors.
- Recommendation 28.** The Department of Treasury and Finance explain the basis of accounting that has been applied in developing material disclosed in each budget paper.
- Recommendation 29.** Where the total for new asset initiatives shown in Budget Paper No.3 differs from the estimated capital expenditure on new projects for a department disclosed in Budget Paper No.4, the Department of Treasury and Finance explain the difference in the budget papers.
- Recommendation 30.** Future budget papers compare the total value of new asset initiatives released in that budget to the total value of new asset initiatives released in previous budgets, and explain significant variations.
- Recommendation 31.** The Department of Treasury and Finance aggregate the funding of all new asset initiatives that has been approved in the budget, compare this total to the associated total estimated investment that has been committed to in the budget and disclose the balance that is to be funded in future budgets.
- Recommendation 32.** To provide a more comprehensive publication for informing the Parliament and the community about the remaining expenditure connected with asset projects which is yet to be funded, the Department of Treasury and Finance disclose in the budget papers an estimate for each asset project of when:
- (a) the project is planned to be completed; and
  - (b) funds are to be allocated to fully fund the project.

- Recommendation 33.** In relation to the initiative to devolve control over major capital works to Victorian schools and school principals, the Department of Education and Early Childhood Development:
- (a)** develop a risk management plan to cover the risks involved in implementing this initiative, including the need for a strong corporate governance function;
  - (b)** disclose the cost of administering the initiative, including the provision of training; and
  - (c)** arrange for individual schools to report the additional costs incurred in the procurement function, as well as the benefits derived.
- Recommendation 34.** The Department of Health implement a monitoring regime to oversee the development of asset projects undertaken by the smaller country health services and funded through the Rural Capital Support Fund.
- Recommendation 35.** The Department of Health report in the latter years of the forward estimates on the use of moneys provided to the smaller country health services through the Rural Capital Support Fund, including the difference that such funding has made to the delivery of health services in country Victoria.
- Recommendation 36.** To enhance accountability, the Department of Transport release a timetable disclosing when new trains are to be progressively running on Melbourne's transport network.
- Recommendation 37.** To enhance accountability, the Department of Education and Early Childhood Development release a timetable disclosing when the construction of new schools in major growth areas is to be completed.
- Recommendation 38.** In future budget papers, major asset initiatives be listed separately rather than aggregated.
- Recommendation 39.** The Department of Treasury and Finance disclose in the 2011-12 Budget Update a complete analysis of any significant cost overruns in the State's asset projects.
- Recommendation 40.** Where previously planned implementation timeframes developed for the current budget year have had to be revised for projects experiencing cost pressures, the budget papers disclose details relating to these revised timelines and the reasons for the re-scheduling.

- Recommendation 41.** With regard to the high-value and high-risk asset projects that are to be subject to the enhanced planning and governance processes, to achieve greater transparency, the Department of Treasury and Finance develop:
- (a)** a strategy for listing the high-value and high-risk asset projects in the budget papers in descending order according to the level of risk, as identified by the risk assessment tool applied by the Department;
  - (b)** performance measures that enable an assessment to be made about how these projects are tracking according to the approved budget, established timelines and quality standards of construction; and
  - (c)** clear linkages between these asset initiatives and their intended service delivery outcomes.
- Recommendation 42.** The Department of Treasury and Finance disclose in the budget papers a break-down of the sources of funding for asset investment projects that distinguishes between Commonwealth specific-purpose funding and State allocations.
- Recommendation 43.** Future budget papers covering the State Capital Program disclose which projects have contributed to the asset funding carryover to the budget year.
- Recommendation 44.** The Department of Treasury and Finance explain in the budget papers the reasons for any major movements in contingency provisions over the forward estimates period.
- Recommendation 45.** In relation to asset investment projects provided through public private partnerships, the Department of Treasury and Finance disclose in the budget papers the individual asset investment projects procured through Partnerships Victoria arrangements.
- Recommendation 46.** The Department of Transport provide commentary in its annual report on the status of all asset projects under review, including details relating to funding and re-scheduling where applicable.
- Recommendation 47.** The Department of Treasury and Finance quantify in the budget papers the assumptions factored into the calculation of the payroll tax revenue budget compared to the previous year.

- Recommendation 48.** For the revenue category ‘sales of goods and services’, the Department and Treasury and Finance disclose in the budget papers a comparison of the current budget for its component items to actual revenue for the most recent year and the revised estimate for the prior year.
- Recommendation 49.** To assist in better understanding of the impact of policy initiatives in the Budget, the Department of Treasury and Finance classify revenue initiatives that result in revenue foregone to the Government as ‘revenue foregone initiatives’ in the budget papers.
- Recommendation 50.** To enhance understanding of the fiscal implications of the predicted economic outlook, the Department of Treasury and Finance present in the budget papers a summary in a tabular form of the economic factors that have influenced the major revenue items.
- Recommendation 51.** In terms of the presentation of ‘Other Commonwealth Grants’ in the budget papers, the Department of Treasury and Finance differentiate between:
- (a) grants for specific purposes and grants for on-passing;  
and
  - (b) grants that are ongoing and those that are one-off in nature.
- Recommendation 52.** The Department of Treasury and Finance explain in the budget papers all significant movements in Commonwealth funding between the latest revised estimate and the current Budget.
- Recommendation 53.** Future budget papers continue to disclose the effect of removing one-off Commonwealth grants on the net results from transactions for previous years, the budget year and the forward estimates.
- Recommendation 54.** The Department of Treasury and Finance disclose, by way of the supporting budget data sets that accompany the budget papers, a reconciliation of how grants for specific purposes received from the Commonwealth for the general government sector will be distributed to individual departments, together with a trail of how this funding can be traced to departmental output and financial statements.

- Recommendation 55.** To enable interested parties to understand the status of unresolved matters that could have a material effect on the State's budget, the Department of Treasury and Finance establish a dedicated page on its website that contains an up-to-date commentary on the status of these matters and their potential impact on the Budget.
- Recommendation 56.** 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.
- Recommendation 57.** The Department of Treasury and Finance disclose in the budget papers its debt management strategy and detail the measures, including targets, that are to be employed to ensure the successful implementation of the strategy.
- Recommendation 58.** The Department of Treasury and Finance include in the budget papers a comparison of Victoria's ratio of net debt to GSP to the other states and territories.
- Recommendation 59.** The Department of Treasury and Finance ensure that the diagrammatic breakdown of estimated concessions in the budget papers reflects the current budget year.
- Recommendation 60.** Future budget papers show a break-down of the estimated expense described as 'regulatory bodies and other part funded agencies' in Note 12(b) to the general government sector operating statement.
- Recommendation 61.** Future budget papers itemise the composition of the major deduction figures shown as 'eliminations and adjustments' in Note 12(b) to the general government sector operating statement.
- Recommendation 62.** In the budget papers or the online supporting budget data sets, the Department of Treasury and Finance break down the 'eliminations and adjustments' figure by department.
- Recommendation 63.** Departments which pass on large amounts of grants for specific purposes should give consideration to including performance measures in the budget papers to assess the departments' effectiveness at managing service delivery through grants.

- Recommendation 64.** Future budget papers provide explanations for major changes (between the budget year and the revised estimates for the previous year) to the estimated expenditure in each of the categories into which expenditure is broken down in the departmental operating statements.
- Recommendation 65.** In future responses to the Committee’s budget estimates questionnaires, the Parliamentary Departments ensure that they provide accurate and complete responses to questions seeking explanations for variances in expenditure.
- Recommendation 66.** In future budget papers, where a department’s total expenses from transactions differs from its total output cost, details be provided which:
- (a) quantify the difference; and
  - (b) explain what the expenditure not accounted for in the output cost is.
- Recommendation 67.** The 2012-13 budget papers detail the effects of enterprise bargaining agreements established in 2011-12, including:
- (a) quantifying the effects of the agreements on estimates for ‘employee expenses’; and
  - (b) detailing any productivity savings targets established as part of the process.
- Recommendation 68.** Future budget papers contain a more detailed break-down of the expense category ‘other operating expenses’ than is currently provided. In developing a more detailed break-down, the Department of Treasury and Finance should consider the sub-categories used in the Department of Innovation, Industry and Regional Development’s 2009-10 Annual Report.
- Recommendation 69.** Any changes to the sub-categories into which ‘other operating expenses’ are broken down in the budget papers be matched by equivalent improvements in the reporting of actual expenditure in the annual financial report for the State.
- Recommendation 70.** The model financial report for departments be modified to recommend the use of the same sub-categories to break down ‘other operating expenses’ that are developed for use in the budget papers and annual financial report for the State.

- Recommendation 71.** The cost, outcomes, impact on Government policy decisions and impact on forward expenditure of reviews, inquiries, studies, audits and evaluations commissioned by the Government be explained in future budget papers or in a separate report referenced in the budget papers.
- Recommendation 72.** In presenting details of the drawdowns from contingency provisions in future annual financial reports for the State, the Government adopt the format used to account for use of the Advance to the Treasurer in the appropriation bills.
- Recommendation 73.** In future annual financial reports for the State, the notes accompanying the financial statements break down expenditure both by department and by purpose, to complement the equivalent disclosure in the budget papers.
- Recommendation 74.** Future budget papers and budget updates specify how much of the allowance for ‘contingencies not allocated to departments’ is released to pay for new initiatives and ‘policy decision variations’ when:
- (a) quantifying the net impact of new output initiatives; and
  - (b) reconciling the forward estimates to previously published estimates.
- Recommendation 75.** Where there is a significant discrepancy between the estimate of Commonwealth grants for Victoria in the Victorian budget papers and the Commonwealth budget papers, the Department of Treasury and Finance publish a document on its website indicating what impact that difference will have on the Budget.
- Recommendation 76.** The Department of Transport publish details, as soon as they are known, of the impacts of the deferrals of Commonwealth funding for the Regional Rail Link, including quantifying the additional costs that will be incurred as a result and how those costs will be met.
- Recommendation 77.** Any policy developed as part of the State-based reform agenda clearly indicate any correlation between the State objectives and targets and the targets and objectives established as part of the COAG Reform Agenda.
- Recommendation 78.** The Department of Treasury and Finance detail more precisely in future budget papers the extent of policy alignment between the State Government and the COAG Reform Agenda, including the extent to which performance measures and targets align or differ.

- Recommendation 79.** The Department of Justice reassess the performance measures in its Emergency Management Capability output to reflect the impact of the additional funding provided for this output.
- Recommendation 80.** Once the details and priorities for the Safer Electricity Fund are established, the Government develop appropriate performance indicators for this initiative.
- Recommendation 81.** A break-down of all current initiative funding and estimated expenditure over the longer-term dedicated to the implementation of the Victorian Bushfires Royal Commission recommendations be provided in a single place, in either the budget papers or reports from the independent bushfire monitor.
- Recommendation 82.** The Government develop a single implementation, reporting and evaluation framework that encompasses the 2010-11 Victorian flood response and will also be appropriate for future emergency management and responses. The Government should consider incorporating into this framework the emergency management phases of the ‘Comprehensive Approach’ – preparation, prevention, response and recovery.
- Recommendation 83.** The Department of Sustainability and Environment develop performance measures for the Living Melbourne, Living Victoria road map following the development of related initiatives.
- Recommendation 84.** In future responses to the Committee’s recommendations, the Government indicate in the response column whether a recommendation is fully or only partly supported.
- Recommendation 85.** In future responses to the Committee’s recommendations, the Government specify a timeframe by which a decision will be reached for each recommendation classified as ‘under review’.
- Recommendation 86.** In future responses to the Committee’s recommendations, the Government commit to updating the Public Accounts and Estimates Committee within three months of determining what action will be taken for each recommendation classified as ‘under review’.
- Recommendation 87.** In future responses to the Committee’s recommendations, for all recommendations with further action planned, the Government provide timelines by which it expects the actions to be completed.

**Recommendation 88.** The Department of Treasury and Finance clarify for the Government the differences between the classification ‘under review’ and ‘support’.

**Recommendation 89.** In its response to the 2011-12 Budget Estimates Inquiry, the Government provide an update on all recommendations from the 2010-11 Budget Estimates Inquiry which included further planned actions.

**Recommendation 90.** In future responses to the Committee’s recommendations, in describing any further actions planned, the Government specify:

- (a) whether those actions will definitely include what the Committee has recommended; and
- (b) whether the planned actions will fully or partly implement the recommendation.



## CHAPTER 1: INTRODUCTION

### 1.1 Background

Each year, the Public Accounts and Estimates Committee undertakes an inquiry into Victoria's budget estimates and the budget papers, a legislative responsibility under Section 14 of the *Parliamentary Committees Act 2003*. The aims of this inquiry include:

- assisting members of Parliament in their consideration of the appropriation bills;
- providing greater understanding of the budget estimates to the Parliament and community;
- promoting clear, full and precise statements of the Government's objectives and planned outcomes in the budget papers; and
- encouraging economical, efficient and effective government administration.

In undertaking this inquiry for the 2011-12 budget estimates, the Committee has drawn on a number of sources of information, including the budget papers, a questionnaire issued to all departments, public hearings and ministers' responses to questions on notice and requests for further information.

The Committee's *Report on the 2011-12 Budget Estimates*, which represents the culmination of this work, has been tabled in three parts, of which this is the third and final. Through all three parts of its report, the Committee has made recommendations for the Government to consider. These are aimed at enhancing the transparency of Government spending and the accountability of the Government for the money it spends. Many of these recommendations are focused on changes that might be made to the budget papers in future years. The remaining recommendations relate to other accountability mechanisms (such as departmental annual reports, websites and the financial report for the State) or to matters that have come to light through the Committee's examination of the budget estimates.

### 1.2 Research undertaken by the Committee as part of this inquiry

As part of its analysis of the budget estimates, the Committee undertakes its own research through:

- a questionnaire sent to all departments;
- public hearings with the Presiding Officers, Premier, Deputy Premier, Treasurer, Assistant Treasurer, Attorney-General, all Victorian ministers and departmental secretaries; and
- questions on notice and requests for further information from the public hearings.

Copies of the departments' responses to the questionnaire, transcripts of the public hearings, responses to the questions on notice and responses to requests for further information are all available on the Committee's website ([www.parliament.vic.gov.au/paec](http://www.parliament.vic.gov.au/paec)).

### **1.2.1 The budget estimates questionnaire**

All government departments and the Parliamentary Departments were sent a questionnaire before the public hearings to provide the Committee with additional information about how the Budget affects each department. The 2011-12 budget estimates questionnaire requested information on:

- departments' strategic priorities;
- the preparation of the Budget;
- performance measures;
- spending;
- efficiencies;
- asset and output initiative funding;
- revenue initiatives, departmental income and tax expenditures;
- grants from the Commonwealth;
- net debt;
- environmental challenges;
- geographic considerations; and
- staffing matters.

### **1.2.2 Public hearings**

The public hearings took place shortly after the release of the budget papers. Each minister was asked to make brief presentations and answer questions from the Committee for each of their portfolios about the anticipated use of funds sought in the Budget. In 2011, there were 48 public hearings, conducted over 54 hours.

### **1.2.3 Questions on notice and requests for further information**

At many of the public hearings, witnesses took questions on notice or agreed to provide further information. Following the completion of the hearings, the relevant witnesses were sent copies of these questions and details of the further information agreed to be provided. All questions on notice and requests for further information were responded to.

Some witnesses were also sent a series of additional questions that had not been asked at the public hearings. Witnesses were advised that they may wish to respond to these unasked questions but that the questions fall outside the estimates questionnaires and hearings process. In total, 300 unasked questions were sent to witnesses in 2011-12. In comparison, none were sent in 2010-11, six in 2009-10, three in 2008-09 and 24 in 2007-08. The Committee received no responses to the unasked questions in 2011-12, with four ministers specifically acknowledging the unasked questions received, however, stating that they exercised the option to not provide responses to those questions. Of these four ministers, in their letters to the Committee, three ministers gave reasons, including that there are '*many other Parliamentary opportunities for members to raise such questions*' (the Hon. Dr Denis Napthine MP and the Hon. Louise Asher MP)

and that the budget estimates hearings is considered the appropriate forum to address questions relating to the budget estimates (the Hon. David Davis MLC). A fourth minister, the Hon. Matthew Guy MLC, did not provide a reason.

### 1.2.4 *Timeliness of responses*

The Committee appreciates the substantial work that was put into responding to its questionnaire and to the questions on notice and other requests for information from the hearings. However, the Committee notes that there were a number of instances in which responses were received substantially after the Committee's deadline (see Tables 1.1 and 1.2).

**Table 1.1: Timeliness of departmental responses to the Committee's 2011-12 budget estimates questionnaire**

| Department                                | Part A response received<br>(due 28 April) | Part B response received<br>(due 4 May) |
|---|--|---|
| Business and Innovation                   | 28 April 2011                              | 9 May 2011                              |
| Education and Early Childhood Development | 29 April 2011                              | 10 May 2011                             |
| Health                                    | 9 May 2011                                 | 18 May 2011                             |
| Human Services                            | 10 May 2011                                | 9 May 2011                              |
| Justice                                   | 28 April 2011                              | 9 May 2011                              |
| Planning and Community Development        | 28 April 2011                              | 10 May 2011                             |
| Premier and Cabinet                       | 28 April 2011                              | 9 May 2011                              |
| Primary Industries                        | 28 April 2011                              | 17 May 2011                             |
| Sustainability and Environment            | 29 April 2011                              | 18 May 2011                             |
| Transport                                 | 21 April 2011                              | 9 May 2011                              |
| Treasury and Finance                      | 28 April 2011                              | 4 May 2011                              |
| Parliamentary Departments                 | 4 May 2011                                 | 4 May 2011                              |

*Note:* dates listed are those on which final, complete, endorsed responses were received – in a number of cases responses were received earlier which were partial, unendorsed or which were re-submitted later with changes

*Source:* Public Accounts and Estimates Committee

Although, in a number of cases, partial responses were provided earlier than the dates listed above, the lateness of many responses created difficulties for the Committee. One of the purposes of the questionnaire is to assist members of the Committee in their scrutiny of ministers at the public hearings. The lateness of some questionnaires reduced the length of time that the Committee had to consider the information in the questionnaires and to develop questions arising from that information. This was particularly the case in a couple of instances where the Committee received copies of the questionnaire on the same day as the public hearing. The Committee considers that the late return of the questionnaires was a serious impediment to the Committee's deliberation and to Parliamentary scrutiny, and that ministers must ensure that it is not repeated in the future.

**Recommendation 1: In future years, ministers ensure that departments' budget estimates questionnaires are returned by the specified deadline.**

The Committee notes that some of the responses to its questions on notice and further information agreed to be provided were also received well past the deadline (see Table 1.2).

**Table 1.2: Timeliness of responses to questions on notice and further information agreed to be provided**

| <b>Witness</b>                                   | <b>Response received<br/>(due 23 June)</b> |
|--|--|
| Hon. Louise Asher MP                             | 15 July 2011                               |
| Hon. Bruce Atkinson MLC and<br>Hon. Ken Smith MP | 5 July 2011                                |
| Hon. Ted Baillieu MP                             | 28 July 2011                               |
| Hon. Robert Clark MP                             | 27 June 2011                               |
| Hon. David Davis MLC                             | 27 June 2011                               |
| Hon. Hugh Delahunty MP                           | 24 June 2011                               |
| Hon. Martin Dixon MP                             | 15 July 2011                               |
| Hon. Matthew Guy MLC                             | 15 July 2011                               |
| Hon. Peter Hall MLC                              | 15 July 2011                               |
| Hon. Wendy Lovell MLC                            | 15 July 2011                               |
| Hon. Andrew McIntosh MP                          | 27 June 2011                               |
| Hon. Terry Mulder MP                             | 23 June 2011                               |
| Hon. Dr Denis Napthine MP                        | 23 June 2011                               |
| Hon. Michael O'Brien MP                          | 27 June 2011                               |
| Hon. Jeanette Powell MP                          | 15 July 2011                               |
| Hon. Gordon Rich-Phillips MLC                    | 15 July 2011                               |
| Hon. Peter Ryan MP                               | 27 June 2011                               |
| Hon. Ryan Smith MP                               | 22 June 2011                               |
| Hon. Mary Wooldridge MP                          | 24 June 2011                               |

*Note: dates listed are those on which final, complete, endorsed responses were received*

*Source: Public Accounts and Estimates Committee*

Late responses to questions on notice and requests for further information led to delays in the preparation of material as part of this report. In a number of cases, the covering letters accompanying the responses were dated to a date prior to the deadline but the Committee did not receive the letters until some weeks later. Whatever the causes, however, the Committee considers the substantial delays to be unacceptable.

**Recommendation 2: The Government ensure that, in the future, responses to questions on notice and further information agreed to be provided are supplied in a timely manner.**

### 1.3 Report on the 2011-12 budget estimates

As a result of the Committee's inquiry, the Committee has produced a report in three parts.

Part One provides an overview of the key aspects of the 2011-12 Budget and an index to the transcripts of the public hearings, listing the key matters raised. The overview has been reproduced (without the recommendations) as Chapter 2 of this Part Three, to serve as a useful introduction to the 2011-12 Budget.

Part Two focuses on the departmental performance measures in the budget papers and issues related to these measures.

This Part Three provides a detailed analysis of the budget estimates and budget papers:

- Chapter 3 is a review of the budget papers, especially highlighting changes that have occurred between the 2010-11 and 2011-12 Budgets;
- Chapters 4 and 5 explore the output and asset initiatives released in the 2011-12 Budget;
- Chapters 6 and 7 analyse the trends in revenue and expenditure estimated in the Budget;
- Chapter 8 examines Commonwealth-State relations and the impact of these on the Budget and the Government in 2011-12;
- Chapter 9 looks at the way that responding to the environment has shaped the Budget; and
- Chapter 10 analyses the Government's responses to the Committee's *Report on the 2010-11 Budget Estimates - Part Three*.

In addition, the Committee has published the evidence it has received to its website ([www.parliament.vic.gov.au/paec](http://www.parliament.vic.gov.au/paec)) for any person wanting further detail. This evidence consists of:

- departments' responses to the budget estimates questionnaire;
- transcripts of the public hearings;
- ministers' presentations at the public hearings; and
- ministers' responses to questions on notice and further information agreed to be provided.

The Government's responses to the Committee's recommendations in its *Report on the 2010-11 Budget Estimates - Part Three* (which are discussed in Chapter 10 below) are available on the Committee's website too.

### 1.4 Machinery-of-government changes

As also detailed in Part One of the Report, a number of machinery-of-government changes occurred following the 2010 Victorian State election. These include:

- the Department of Innovation, Industry and Regional Development has changed its structure and been renamed the Department of Business and Innovation;
- the Regional and Rural Development portfolio has been moved from the former Department of Innovation, Industry and Regional Development to the Department of Planning and Community Development, which also has responsibility for the new Regional Cities portfolio;
- the new Ageing portfolio, which replaces the Senior Victorians portfolio, is now part of the Department of Health rather than the Department of Planning and Community Development;
- the new Higher Education and Skills portfolio, within the Department of Education and Early Childhood Development, covers:
  - areas previously part of the Skills and Workforce Participation portfolio within the former Department of Innovation, Industry and Regional Development; and
  - responsibilities for the adult community and further education area which were previously within the Department of Planning and Community Development; and
- the Youth Affairs and Women’s Affairs portfolios (along with responsibility for community participation and the Office for Disability), which were previously within the Department of Planning and Community Development, are now part of the Department of Human Services.

A number of ministerial portfolios have also been changed, amalgamated or split and several have been created, with the total number of government portfolios increasing from 42 to 47. Table 1.3 compares the portfolios in 2010 with those in 2011.

**Table 1.3: Government portfolios in 2010 and 2011**

| 2010 portfolios                                      | 2011 portfolios  |
|--|--|
| Aboriginal Affairs                                   | Aboriginal Affairs   |
| Agriculture  | Ageing*  |
| Arts   | Agriculture and Food Security*   |
| Attorney-General                                     | Arts   |
| Children and Early Childhood Development             | Assistant Treasurer*   |
| Community Development                                | Attorney-General   |
| Community Services                                   | Bushfire Response*   |
| Consumer Affairs                                     | Children and Early Childhood Development                                     |
| Corrections  | Community Services   |
| Education  | Consumer Affairs   |
| Energy and Resources                                 | Corrections  |
| Environment and Climate Change                       | Crime Prevention*  |
| Finance, WorkCover and Transport Accident Commission | Education  |
| Financial Services                                   | Employment and Industrial Relations*   |
| Gaming   | Energy and Resources   |
| Health   | Environment and Climate Change   |
| Housing  | Finance*   |
| Industrial Relations                                 | Gaming   |
| Industry and Trade                                   | Health   |
| Information and Communication Technology             | Higher Education and Skills*   |
| Innovation   | Housing  |
| Local Government                                     | Innovation, Services and Small Business*                                     |
| Major Projects                                       | Local Government   |
| Mental Health  | Major Projects   |
| Multicultural Affairs                                | Manufacturing, Exports and Trade*  |
| Planning   | Mental Health  |
| Police and Emergency Services                        | Minister responsible for the aviation industry*                              |
| Premier  | Minister responsible for the establishment of an anti-corruption commission* |
| Public Transport                                     | Minister responsible for the teaching profession*                            |
| Racing   | Multicultural Affairs and Citizenship*                                       |
| Respect Agenda                                       | Planning   |
| Roads and Ports                                      | Police and Emergency Services  |
| Regional and Rural Development                       | Ports*   |
| Senior Victorians                                    | Premier  |
| Skills and Workforce Participation                   | Public Transport   |
| Small Business                                       | Racing   |
| Sport, Recreation and Youth Affairs                  | Regional and Rural Development   |
| Tourism and Major Events                             | Regional Cities*   |
| Treasurer  | Roads*   |
| Veterans' Affairs                                    | Sport and Recreation*  |
| Water  | Technology*  |
| Women's Affairs                                      | Tourism and Major Events   |
|  | Treasurer  |
|  | Veterans' Affairs  |
|  | Water  |
|  | Women's Affairs  |
|  | Youth Affairs*   |

Note: \* indicates that the portfolio is new or has had a name change since 2010

## **1.5 The geographic distribution of funding in the 2011-12 Budget and the impact of population growth**

As discussed in Chapter 3 below, the Committee considers that there is scope for improved reporting in the budget papers about the geographic distribution of funds. The Committee undertook its own investigations on this matter through its budget estimates questionnaire. The Committee asked departments what they considered to be the critical issues facing metropolitan Melbourne, regional cities and rural Victoria and how these issues are addressed through the 2011-12 Budget.

In many cases, departments cited population growth as an issue affecting the different regions of Victoria. Population growth was cited as a factor increasing the demand on the Government's services and infrastructure in metropolitan Melbourne and regional cities. In rural areas, demographic change was cited as a driver of increased demand on services, especially the increasing proportion of older residents. The Committee asked ministers about the impact of predicted population growth on their portfolios at the budget estimates hearings, which can be seen in the transcripts on the Committee's website.

Natural disasters, such as fire and flood, were also cited by several departments as critical issues affecting regional cities and rural Victoria. The Government's response to these issues is discussed further in Chapter 9 below.

A number of other issues were cited by departments as critical to metropolitan Melbourne, regional cities and rural Victoria. Departments' full responses can be read on the Committee's website.

## **1.6 Acknowledgement**

The Committee thanks the Presiding Officers, Premier, Deputy Premier, Treasurer, Assistant Treasurer, Attorney-General, ministers, departmental secretaries and deputy secretaries, heads of agencies and their accompanying staff for their assistance at the budget estimates hearings and for their work in responding to the budget estimates questionnaire. The Committee also thanks the many ministers who took questions on notice or agreed to provide further information.

## **1.7 Cost**

The cost of this inquiry was approximately \$79,900.

## CHAPTER 2: KEY ASPECTS OF THE 2011-12 BUDGET

### Overview of the key aspects of the 2011-12 Budget:

- 2.1 In its first budget, the Government has highlighted the challenge of maintaining the sustainability of Victoria's financial standing.
- 2.2 The Government's interim measures that have been identified in the Budget will be supplemented by the formulation of longer-term strategic action, reportedly with details likely to be published in the lead up to or within the 2012-13 Budget.
- 2.3 Eleven budget themes underpin the overall direction of the Budget and the Budget's new output and asset funding initiatives.
- 2.4 The Budget forecasts an operating surplus of \$140.4 million in 2011-12 which is in line with the Government's fiscal target of a minimum surplus of \$100.0 million. This forecast is \$731.5 million (84 per cent) lower than the initial budget for 2010-11 and \$109.0 million (44 per cent) lower than the latest revised budget for 2010-11. In each case, the reduction predominantly reflects higher operating expense projections against a backdrop of stabilised revenue levels and a significant fall in the State's forecast share of GST distributions.
- 2.5 The Government states that delivery of the Government's November 2010 election commitments is a specific feature of the Budget. Funding is allocated up to 2014-15 for output commitments totalling \$4.4 billion (which provides for the majority of the Government's output election commitments), and \$1.1 billion for asset commitments (providing for 46 per cent of asset election commitments). The Government has expressed an intention to fully fund the remaining commitments during its current term.
- 2.6 The Government has announced efficiency savings targets totalling \$2.2 billion, allocated across all departments, over the five-year period to 2014-15. These targeted savings have been established by the Government to partly fund its election commitments.
- 2.7 There is scope for any new Government to provide more transparent material in budget papers to address information gaps relating to its election commitments and its election commitment savings.
- 2.8 The Government has stated in the budget papers that the total cost of emergency response, repairs to State-owned assets and support for community recovery arising from the devastating floods in Victoria late in 2010 and early in 2011 is estimated at \$676 million, with \$115 million likely to be recouped by the State from insurance.
- 2.9 The Commonwealth Government has announced in its 2011-12 Budget an intention to provide an advance payment of \$500 million to Victoria for flood reconstruction and recovery.
- 2.10 Net infrastructure investment in the general government sector in 2011-12 is projected to be \$6.1 billion and to average \$4.6 billion over the three-year forward estimates period to 2014-15.

- 2.11** Around 54 per cent of the total projected \$20.0 billion infrastructure program over the four-year period to 2014-15 will be funded from cash operating surpluses. The remainder will be financed through additional borrowings.
- 2.12** The current approach to presentation of the budgeted infrastructure program means that data provided in particular budget papers are not readily reconcilable with related material in other budget papers. This hinders the Parliament's analysis of such an important element of the Budget. While the quantity of presented data is ample, there is scope, from the Parliament's perspective, to enhance its quality.
- 2.13** Net debt in the general government sector is projected to rise from the latest revised level at June 2011 of \$11.9 billion (3.7 per cent of Gross State Product), to \$16.8 billion at June 2012 (5.0 per cent of GSP), to \$20.8 billion by June 2013 (5.9 per cent of GSP) and to \$23.2 billion (5.9 per cent of GSP) by the end of the forward estimates period of June 2015.
- 2.14** The two rating agencies utilised by the Government have issued confirming announcements on the State's AAA credit rating following the 2011-12 Budget.
- 2.15** Significant levels of contingency provisions have been made in the 2011-12 Budget over the four-year period to 2014-15 to cover such matters as programs lapsing, future demand growth and items not formalised at the time of the Budget. With these provisions, the Government has available a buffer of over \$6.7 billion for operating purposes and \$2.7 billion for capital purposes for use without impairing budget projections, including forecast operating results. These contingencies therefore provide significant budgetary flexibility to the Government.

## **2.1 Introduction**

This chapter is repeated from Part One of the *Report on the 2011-12 Budget Estimates*. It is intended to provide an overview of the 2011-12 Budget and an introduction to the more detailed analysis that appears in the following chapters.

The version of this chapter published in Part One of this report contained nine recommendations for possible improvements to the budget papers, departmental annual reports and the annual financial report for the State. These recommendations have not been included here to avoid any confusion for the Government in formulating its responses.

This chapter examines the Budget at a high level under the following headings:

- budget setting and key budget themes;
- fiscal target for operating surplus;
- the Government's November 2010 election commitments;
- response to major flooding;
- funding for infrastructure investments; and
- contingency provisions.

The chapter presents the Committee's overview of the above aspects of the Budget with a specific focus, from the Parliament's perspective, on the clarity and transparency of published material.

In several places, the Committee recognises initiatives taken by the Government to improve disclosure in the budget papers. These initiatives include changes made to the structure and content of the budget documents as a consequence of the change of government following the November 2010 election.

The Committee has made a number of recommendations in the chapter that focus on areas where improvements in the presentation of budget information can be made to assist the Parliament's analysis of the annual budget. These recommendations are designed to assist the Government in achieving its published aim of improving accountability and transparency in its operations and reporting practices.<sup>1</sup>

## 2.2 Budget setting and key budget themes

### 2.2.1 Budget setting

The 2011-12 Budget represents the Coalition Government's first budget since it assumed office following the November 2010 election.

Prior to the presentation of the Budget to the Parliament, the following two documents were published containing information relevant to the Government's assessment of the budget setting:

- a *Victorian Economic and Financial Statement* (April 2011), which is a Government document asserting, among other things, that Victoria's fiscal position exhibits a number of underlying weaknesses including:<sup>2</sup>
  - a range of capital projects beset by inadequate management and very significant cost overruns;
  - a rise in public debt to finance capital projects;
  - a reliance on Commonwealth one-off funding; and
  - a pattern of spending growth exceeding revenue growth.

The Statement indicates that these challenges will not be solved overnight but will require ongoing, disciplined management. It signals that they will form the backdrop to the Government's 2011-12 Budget.

The Statement also identifies that, since the *2010-11 Budget Update* was published in December 2010, Victoria has experienced a large reduction in Commonwealth revenue and significant flood repair expenditure and that the budget position will consequently be impacted by:<sup>3</sup>

1 Victorian Budget, *2011-12 Budget Overview*, May 2011, p.24

2 Department of Treasury and Finance, *Victorian Economic and Financial Statement*, April 2011, p.1

3 *ibid.*

- a \$2.5 billion reduction in Victoria’s goods and services tax (GST) over four years based on the Commonwealth Grants Commission’s recommendations;
- a further delay to the Commonwealth’s funding contribution to major infrastructure projects such as the Regional Rail Link (\$500 million) and the Victorian Comprehensive Cancer Centre (\$50 million); and
- significant repair and reconstruction costs associated with the flood events across Victoria in late 2010 and early 2011.

The Statement adds that, ‘Together, these underlying budget weaknesses and external factors amount to an unprecedented impact on the Victorian budget which will exceed \$5 billion.’<sup>4</sup>

- the *Interim Report* of the Independent Review of State Finances (released in late April 2011), in which the external panel conducting the review concluded that, ‘a fresh approach to financial management is required if the State’s finances are to be sustainable into the future.’<sup>5</sup> The panel stated that, ‘The combined challenges of a deteriorating operating position, inadequate protection against economic shocks, insufficient investment in infrastructure and the recent increase in debt require a thorough re-evaluation of how the State’s finances are managed.’<sup>6</sup> The Panel has developed a comprehensive financial management framework to facilitate this re-evaluation and recommended that the Government adopt the framework for future budgets.

In his message in the *2011-12 Budget Overview*, the Treasurer referred to the challenges identified in the above documents and stated that, ‘The Coalition is implementing a clear and comprehensive plan to improve Victoria’s finances and foster a stronger, more competitive, growing economy.’<sup>7</sup>

The budget papers outline the steps that the Government intends to take ‘to make Victoria’s public finances more sustainable’, namely:<sup>8</sup>

- delivery of Government’s commitment to have surpluses of at least \$100 million in each year...;
- constraint in expenditure growth, including the delivery of a \$2.2 billion five year package of efficiency savings;
- ensuring that debt as a percentage of GSP will stabilise, with net financial liabilities falling as a percentage of GSP by 2014-15, and remaining consistent with retaining Victoria’s triple-A credit rating;

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4      ibid, p.2

5      Independent Review of State Finance, *Interim Report*, April 2011, letter to the Treasurer

6      ibid.

7      Victorian Budget, *2011-12 Budget Overview*, May 2011, p.1

8      Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.25

- *addressing the issue of cost overruns by increasing the Treasurer's direct involvement in oversight of major projects to provide more rigour in delivery against timelines and budgets; and*
- *emphasising the importance of the Government's policy of having no wage policy outcomes greater than 2.5 per cent, unless they are funded from productivity gains.*

The budget papers state that further detail on the Government's fiscal strategy will be provided in the Government's response to the interim report of the Independent Review of State Finances. The papers also refer to the longer-term challenge of '*addressing the budget's reliance on temporary grants from the Commonwealth to maintain operating surpluses*'. In addition, they indicate that the final report of the Independent Review of State Finances, due in February 2012, will provide advice to the Government on a medium-term strategy to achieve funding of infrastructure spending through operating surpluses, as recommended in the Review's interim report.<sup>9</sup> The final report is expected to provide the context for the 2012-13 Budget '*as the Government moves to shore up the fiscal and economic future of the State.*'<sup>10</sup>

From the Committee's viewpoint, the Government has highlighted in its first budget the challenge of maintaining the sustainability of Victoria's financial standing. The Government has flagged that the interim measures identified in the Budget will be supplemented by the formulation of longer-term strategic action, with details likely to be published in the lead up to or within the 2012-13 Budget.

The Committee awaits with interest the more substantive longer-term fiscal strategies foreshadowed by the Government.

### **2.2.2 Key budget themes**

In the *2011-12 Budget Overview*, the Government has identified the following 11 key themes or funding categories that underpin the overall direction of its initial budget and of the Budget's new output and asset funding initiatives:

- strengthening Victoria's finances;
- boosting Victoria's economy;
- flood response;
- cost of living;
- community safety;
- rebuilding our transport system;
- regional and country Victoria;
- health and hospitals;
- education and skills;

9 *ibid.*

10 Department of Treasury and Finance, *Victorian Economic and Financial Statement*, April 2011, p.12

- supporting local communities; and
- integrity of government.

This multi-faceted approach to the formulation of budget themes reflects delivery by the Government of its November 2010 election commitments against the background of the financial challenges cited in the two previously mentioned documents published prior to the Budget.

The budget papers contain extensive information, as set out below, on new output and asset funding initiatives announced in the 2011-12 Budget:

- the *2011-12 Budget Overview* describes the main new funding initiatives that will be implemented under each budget theme in 2011-12 and beyond;
- the *2011-12 Strategy and Outlook* (Budget Paper No.2) tabulates the aggregate dollar values of new output and asset funding initiatives assigned to each department as well as the aggregate net financial impact of the output funding initiatives;
- the *2011-12 Service Delivery* (Budget Paper No.3) summarises, under departmental headings, the major budgetary initiatives supporting delivery of the Government's election commitments and categorises them according to the output group headings established for each department; and
- the *2011-12 Service Delivery* also brings together all new funding initiatives, including the level of funds allocated in 2011-12 and beyond, under departmental headings, and how each initiative links to the relevant departmental outputs.

It is appropriate for the Committee to also mention that the Government has issued its 2011-12 capital program as a budget paper (Budget Paper No.4). For many years, this program had been published as a budget information paper about five months after each budget in the following October. Last year, the budget information paper was published at the same time as the budget papers but the latest initiative assigns it the status of a budget paper, a move the Committee welcomes.

The Committee also welcomes the inclusion within particular budget papers of details of changes to structure and content compared with the previous year. This approach enhances transparency and assists the Parliament's consideration of the published material under a new government.

## **2.3 Fiscal target for operating surplus**

The Treasurer's April 2011 Economic and Financial Statement identified that a fiscal commitment of the Government is to deliver '*an annual minimum \$100 million budget surplus to help finance necessary infrastructure and services.*'<sup>11</sup>

For 2011-12, the Government is forecasting an operating surplus of \$140.4 million in the general government sector in line with this fiscal target. It is also forecasting operating

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11     ibid.

surpluses averaging \$163.8 million over the three-year forward estimates period to 2014-15.<sup>12</sup>

Table 2.1 shows the revenue and expense projections for 2011-12 together with the original budget and latest revised forecast for 2010-11.

**Table 2.1: Revenue and expense estimates for 2010-11 and 2011-12**

| Operating item              | 2010-11 Budget | 2010-11 Revised Budget | 2011-12 Budget |
|-----------------------------|----------------|------------------------|----------------|
|                             | (\$ million)   | (\$ million)           | (\$ million)   |
| Revenue                     | 45,759.3       | 45,438.3               | 47,439.2       |
| Expenses                    | 44,887.4       | 45,188.9               | 47,298.8       |
| Estimated operating surplus | 871.9          | 249.4                  | 140.4          |

Source: *Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.26*

Table 2.1 identifies that the budgeted operating surplus for 2011-12 is \$731.5 million (84 per cent) lower than the initial budget for 2010-11 and \$109.0 million (44 per cent) lower than the latest revised budget for 2010-11. In each case, the reduction predominantly reflects higher operating expense projections against a backdrop of stabilised revenue levels. In contrast, the equivalent comparisons between 2009-10 and 2010-11 estimates were increases in the estimated operating surplus of \$642.4 million (280 per cent) and \$477.0 million (121 per cent).

Variations in forward estimates between the two years convey a similar message. For the two forward estimates years common to both budgets, 2012-13 and 2013-14, the estimated operating surplus in the 2011-12 Budget is significantly lower by more than \$1.2 billion compared to equivalent projections presented in the 2010-11 Budget.

With such a sharp turnaround in budget estimates between the two Budgets, the Committee was particularly interested in the Government's assessment of the underlying reasons for such variations and the quality of explanatory coverage incorporated within the budget papers.

The *2011-12 Strategy and Outlook* states that:<sup>13</sup>

*The downward revision to the operating surplus reflects the deterioration in Victoria's revenue forecasts primarily driven by a reduction in goods and services tax (GST) revenue by \$4.1 billion over five years. The GST shock is similar to that observed during the global financial crisis.*

The *2011-12 Budget Overview* further explains the composition of the \$4.1 billion drop in forecast revenue as follows:<sup>14</sup>

12 *Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, pp.25-6*

13 *ibid.*, p.21

14 *Victorian Budget, 2011-12 Budget Overview, May 2011, p.2*

*The Commonwealth Grants Commission's assessment has cut Victoria's share of GST revenue by \$2.5 billion over four years and this has been compounded by a further \$1.6 billion reduction in revenue from softer overall GST receipts. The combined effect of the GST reduction is to cut revenue by nearly \$1 billion a year over the forward estimates.*

The following paragraphs summarise explanations included within the budget papers for the main variations in estimates for operating revenue and operating expenses between the 2011-12 Budget and 2010-11 revised budget projections.

### **2.3.1 Variations in revenue projections**

As shown above in Table 2.1, operating revenue in 2011-12 is expected to total \$47.4 billion, which is \$2.0 billion (or 4.4 per cent) higher than the latest revised estimate for 2010-11 and \$1.7 billion higher than the initial published budget for 2010-11.

The 2011-12 budget papers contain detailed commentary on the underlying movements in these revenue projections.<sup>15</sup> The commentary indicates that the estimated revenue growth in 2011-12 is mainly attributable to the following factors:

- an increase of \$510.6 million in taxation revenue;
- an increase of \$519.2 million in grants revenue;
- an increase of \$495.9 million in revenue from sales of goods and services;
- an increase of \$179.6 million in dividends; and
- an increase of \$23.6 million in fines.

#### **The increase of \$510.6 million in taxation revenue**

The budget papers show that this increase principally reflects:

- higher payroll tax revenue of \$319.9 million due to higher-than-expected growth in employment and wages;
- overall higher revenue of \$155.9 million from taxes on insurance, mainly reflecting an increase in insurance contributions to fire brigades and in non-life insurance revenue;
- an increase of \$76.3 million in gambling taxes in line with household consumption expenditure growth and the impact of changes to Crown Casino's licence conditions and taxation arrangements; and
- growth of \$56.5 million in motor vehicle taxes attributable to an increasing volume of cars and motorcycles stimulated by improved affordability and an increase in registration fees in line with movements in the CPI.

The above increases are partly offset by decreases in land transfer duty (\$135.1 million) and land tax (\$37.1 million) with the former reduction reflecting:

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15 Budget Paper No.5, 2011-12 Statement of Finances, May 2011, pp.145-73

- lower property market turnover due in part to higher interest rates; and
- the impact of the Government's revenue initiatives under its election commitments to improve housing affordability for first home buyers, eligible seniors and farmers under 35 years of age.

### **The increase of \$519.2 million in grants revenue**

The budget papers explain that this forecast increase arises from:

- higher GST revenue of \$290.6 million '*driven by a higher national GST pool in 2011-12 compared to 2010-11. The current estimate for 2011-12 GST grants has been revised down by \$811 million since 2010-11 Budget Update.*'<sup>16</sup> (see Section 2.3 above for the reasons cited by the Government for this major downward revision); and
- an increase of \$212.0 million in Commonwealth specific purpose grants for on-passing.

### **The increase of \$495.9 million in revenue from sales of goods and services**

The budget papers indicate that factors contributing to this increase include:

- a one-off impact of payments from the Melbourne Water Corporation previously recognised as revenue in 2009-10 and 2010-11 and to be recognised as revenue in 2011-12 when the desalination plant is commissioned; and
- an increase in inter-sector capital asset charge revenue from VicTrack reflecting revised asset values due to additional capital expenditure.

In a note to each year's estimated financial statements, the budget papers show a dissection of the estimated revenue to be derived under the categories that generate sales of goods and services for the Government. The revised budget outcomes for these categories for the previous year are also disclosed in a separate section.

The services element of this revenue item is described in the budget papers as 'provision of services' and represents the largest revenue component. For example, services revenue is expected to total \$4.4 billion in 2011-12, nearly 68 per cent of expected aggregate revenue from the sales of goods and services.<sup>17</sup> It includes third party revenue generated in various sectors of government such as hospitals, TAFE educational institutions and VicRoads. There is no further dissection of the services element in the budget papers beyond the line item description of provision of services.

The Committee considers that disclosure in the budget papers would be enhanced through inclusion of a dissection of the budgeted revenue expected to be derived for the various items comprising the provision of services. Such disclosure would assist the Parliament in its analysis of movements in the levels of expected revenue arising from service provision in the various sectors of the State and facilitate the identification of revenue trends across financial periods. This *ex ante* presentation should be accompanied by equivalent *ex post* disclosures of actual revenue in the Government's annual financial report.

16 *ibid.*, p.159

17 *ibid.*, p.25

## The increase of \$179.6 million in dividends

The budget papers indicate that dividend revenue to the Consolidated Fund from government authorities is expected to increase by \$179.6 million or 76 per cent in 2011-12. The following explanation for this increase is presented in the budget papers:<sup>18</sup>

*This is largely due to the deferral of the 2010-11 interim dividends from the metropolitan water businesses into 2011-12. There is potential for the profitability of the metropolitan water businesses for 2010-11 to vary materially from the businesses' forecasts due to a range of factors including climatic conditions (which impact on water usage) and residential land development activity. It is proposed that a single dividend be payable by the metropolitan water businesses in October 2011 in respect of 2010-11, and in the light of their full year results.*

This identified change to the usual timing pattern of interim dividend income automatically affects estimates for both the 2010-11 and 2011-12 financial periods, with the latter benefiting from the deferral.

The Committee recognises the rationale for the deferral action, particularly in terms of the major floods of late 2010 and early 2011 and the likely consequential impact on the operations of the water businesses. The Committee also notes that the one-off additional dividend income likely to be received in 2011-12 is greater than the year's forecast operating surplus for the general government sector.

### 2.3.2 Higher operating expense projections

In recent years, the budget papers have not included explanations for variances between the ensuing year's budget forecasts for items of *operating expense* and the revised estimate for the previous year. In contrast, a whole chapter is devoted to such variations for equivalent *revenue* forecasts.

While significant information is presented in the budget papers on variances in output costs between current budget forecasts and revised previous year outcomes for the numerous departmental outputs, there is virtually no commentary on these variances for the main operating expense classifications that drive departmental output expenditure. The two main expense items, 'employee expenses' and 'other operating expenses' (the former is not dissected), together represent around 70 per cent of the total operating outlays projected for 2011-12.

The budget papers include a brief reference to movements in operating expenses since the original published budget for 2010-11 which states:<sup>19</sup>

*Expenses from transactions are budgeted to be \$45.2 billion for 2010-11, which is an increase of \$301.4 million since the original published budget. Of this movement, \$254.5 million has occurred since 2010-11 Budget Update, mainly driven by additional grants expenditure associated with floods recovery-related payments to local governments, other grants to the Health and Education sectors, and from new government policy decisions. This additional estimated expenditure*

18 *ibid.*, p.157

19 *ibid.*, p.208

*has been partly offset by a decrease in depreciation expense of \$142 million since the budget update, mainly due to capital program rephasings and lower than expected asset revaluations.*

The more detailed commentary on operating expenses in the 2011-12 budget papers addresses comparisons between the 2011-12 estimates and:<sup>20</sup>

- the expected average movement over the forward estimates period to 2014-15; and
- estimates for 2011-12 presented in the *2010-11 Budget Update* published in December 2010.

The projected growth over the period to 2014-15 for the Government's highest expense item, employee expenses, is expected to average 4.1 per cent a year. The budget papers indicate the year-on-year growth primarily reflects *'the wages costs associated with growth in services required for a growing community, including the delivery of additional police, Protective Services Officers and child protection staff, as well as anticipated increases in the cost of wages in line with the Government's wages policy.'*<sup>21</sup>

The second largest expense item, 'other operating expenses' (which includes purchases of supplies and services, maintenance outlays and operating lease payments) are projected to grow at 1.5 per cent over the forward estimates period, *'reflecting growing service delivery and service payments related to the State's public transport contracts in the transport sector.'*<sup>22</sup>

The Committee considers that commentary on the reasons for changes in estimated operating expenses between the latest revised figures for the preceding year and the current budget should be a standard feature of each year's budget papers. While the Committee recognises that information published in each year's budget update includes an explanation of progressive changes to budget forecasts, it considers that the inclusion of commentary on differences between revised operating expense figures for the previous year and the current budget would be consistent with the presentation of changes in revenue estimates and facilitate the Parliament's consideration of expense trends and the underlying causal factors.

## **2.4 The Government's November 2010 election commitments**

As part of his message in the Budget Overview document, the Treasurer stated that the 2011-12 Budget *'delivers on the Government's election commitments despite challenging financial circumstances.'*<sup>23</sup>

### **Election commitments**

Chapter 1 of the *Service Delivery* budget paper addresses the Government's November 2010 election commitments. The chapter contains detailed information on the Government's revenue, output and asset election commitments to be funded over the five year period to 2014-15 (some commitments have been met in 2010-11). Each funded commitment is listed

20 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, pp.28-9, 51-2

21 *ibid.*, p.28

22 *ibid.*, p.29

23 Victorian Budget, *2011-12 Budget Overview*, May 2011, p.1

and briefly described under departmental headings and the relevant departmental output groups.<sup>24</sup>

The *Service Delivery* budget paper identifies that the bulk of revenue and output election commitments will be delivered over the period to 2014-15. It indicates that these commitments have been costed at \$5.21 billion and that funding announced in the Budget for them amounts to \$5.12 billion (\$4.36 billion for outputs and \$0.76 billion for revenue initiatives).<sup>25</sup>

This budget paper also indicates that asset election commitments amount to \$2.40 billion, with funding totalling \$1.10 billion allocated in the Budget for these commitments over the period to 2014-15.<sup>26</sup> According to this budget paper, the remaining asset commitments relate to particular capital projects within the responsibility of four departments, namely Education and Early Childhood Development, Health, Justice and Transport. The paper includes a brief description of each outstanding commitment.

The budget papers state that, ‘*The remaining output and asset commitments will be fully funded in future budgets during this term of government.*’<sup>27</sup>

### **Election commitment savings**

In his Economic and Financial Statement (April 2011), the Treasurer referred to a major savings program that had been developed by the Government. The Statement commented that:<sup>28</sup>

*Action has been taken immediately to implement a substantial savings agenda to the value of \$1.6 billion over five years. This includes reducing the number of ministerial and media staff, stopping the funding of politically based government advertising and opinion polling, as well as capping head office staffing.*

*Opportunities are also being identified to improve the efficiency and responsiveness of the government sector through the greater use of competition, better procurement processes and further consolidation of back office functions through the use of shared services. These initiatives will reduce costs and allow greater focus on the quality of frontline services.*

This savings agenda is titled ‘Government election commitment savings’ in the service delivery budget paper, which tabulates the savings expected to be generated over the five years to 2014-15 (including 2010-11) according to identified saving sources as set out in below in Table 2.2:

24 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.13-92

25 *ibid*, p.13

26 *ibid*.

27 *ibid*.

28 Department of Treasury and Finance, *Victorian Economic and Financial Statement*, April 2011, p.12

**Table 2.2: Savings initiatives**

|                                   | 2010-11      | 2011-12      | 2012-13      | 2013-14      | 2014-15      | 5-year total |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                   | (\$ million) |
| Reduction of ministerial staff    | -3.5         | -7.2         | -7.4         | -7.6         | -7.8         | -33.5        |
| Media and marketing positions     | -9.0         | -18.5        | -19.0        | -19.4        | -19.9        | -85.8        |
| Consultants                       | -19.3        | -39.9        | -40.9        | -41.9        | -43.0        | -185.0       |
| Government advertising            | -26.7        | -55.0        | -56.4        | -57.8        | -59.1        | -255.0       |
| Political opinion polling         | -0.1         | -0.2         | -0.2         | -0.2         | -0.3         | -1.0         |
| External legal advice             | -7.3         | -15.0        | -15.4        | -15.8        | -16.1        | -69.6        |
| Senior public service travel      | -0.3         | -0.5         | -0.5         | -0.5         | -0.5         | -2.3         |
| Government office floor space     | 0.0          | 0.6          | -10.9        | -11.2        | -11.5        | -33.0        |
| Supplies and consumables          | -74.1        | -157.3       | -160.0       | -163.6       | -167.3       | -722.3       |
| Promoting shared services         | -9.5         | -9.8         | -10.0        | -10.3        | -10.6        | -50.2        |
| Capping head office staff         | -13.8        | -28.2        | -28.9        | -29.7        | -30.4        | -131.0       |
| Total election commitment savings | -163.6       | -331.0       | -349.6       | -358.0       | -366.5       | -1,568.7     |

Source: Budget Paper No.3, 2011-12 Service Delivery, May 2011, p.92

Each department's share of the aggregate savings of \$1.6 billion is presented in the budget paper as a single line item deduction from the aggregate cost of new funding initiatives.

As well as these savings, in his budget speech, the Treasurer identified that one of the important steps taken by the Government in response to the challenges it had encountered when framing the 2011-12 Budget involved:<sup>29</sup>

*Achieving an additional \$600 million in efficiency savings from government departments, bringing the total value of savings delivered in this budget to \$2.2 billion over five years.*

The budget papers briefly refer to the specific impetus for these additional savings linking their need to the '\$4.10 billion reduction in Victoria's GST revenue over five years'.<sup>30</sup> Each department's share of the additional savings is presented in the service delivery budget paper as a single line item deduction from the aggregate cost of the department's new output funding initiatives described as 'Measures to offset the GST reduction'. The line item amounts add to \$638 million, bringing the total targeted savings to the \$2.2 billion over the five years to 2014-15, as cited by the Treasurer in his Budget Speech.

29 Budget Paper No.1, 2011-12 Treasurer's Speech, May 2011, p.3

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

## **Scope to further enhance presentation of election commitments and targeted savings in future budget papers**

The Committee considers the presentation within the budget papers of the Government's revenue, output and asset election commitments and the allocation of funding over the five years to 2014-15 is comprehensive and would be informative to readers. Chapter 1 of the service delivery paper devotes 79 pages to descriptions of commitments and funding allocations falling within the management responsibility of each department.

The Committee also welcomes the inclusion within the service delivery document of the tabulation of aggregate election commitment savings over the Budget's forecast period and the identification of the elements of government administration that have been identified as the target areas for savings.

The Committee considers, however, there is scope to enhance the overall presentation of election commitments and targeted savings in future budget papers:

*For the published election commitments:*

- the budgeted output and asset election commitments presented under departmental headings are not brought together in a tabulated form to enable readers to identify in summary form the spread of budgeted election commitments across the general government sector and to reconcile the sum of the departmental allocations with the aggregate figures cited in the introductory narrative of chapter 1 of the service delivery budget paper. Readers are left to undertake this task. For both output and asset commitments, the Committee found that the figures shown under departmental headings do not match the published aggregates. The Committee considers a tabulation which summarises the departmental allocations and reconciles with published aggregates should be included in all future budget papers addressing the Government's election commitments.

*For the published election commitment savings:*

- each department's share of the targeted sources of savings such as consultants, government advertising, capping head office staff, supplies and consumables etc. is not disclosed and should be;
- a comparison of each department's share of the aggregate targeted savings across the five years to 2014-15 is currently not available to readers, who have to do their own tabulation to undertake such comparison;
- there is an absence of information on the methodology used for quantifying each department's share of targeted savings – tabulated data compiled by the Committee show that savings allocated to individual departments vary significantly, and these variations are not explained;
- the nature of measures to be implemented to achieve the additional savings of \$600 million following a reduction of GST revenue, which were announced in the Budget to build on the target of \$1.6 billion identified by the Treasurer prior to the Budget, is currently not disclosed in the budget papers; and
- there is no reference in the budget papers to efficiency savings targets totalling \$341.4 million assigned to departments in 2011-12 under previous budgets and

whether these savings have been subsumed within the new savings targets or remain as published in previous years.

The Committee considers that the presentation in budget papers of efficiency strategies announced by governments should clearly identify the areas of public administration targeted in the strategies (as is the case in the current Budget for the savings of \$1.6 billion but not the additional \$600 million) as well as the level of expected savings to be generated by each department for each identified source. The published material should also disclose the basis adopted within the budgetary process for quantifying each department's contribution so that the Parliament and other readers can be assured that arbitrary allocations have not been made and the quantification reflects the specific characteristics of each department's structure and operations and the organisation's capacity to achieve efficiency gains.

These elements of the presentation of targeted savings within budget papers should be matched by equivalent improvements in the reporting of actual savings within the Government's annual financial report and in the annual reports of departments. The *ex post* data should ideally include details of management action taken within departments to generate assigned savings, incorporating information on any programs or services that were either deferred or discontinued as a consequence of the demand placed on the organisation and its resources.

## 2.5 Response to major flooding

Victoria has experienced significant losses to life, property and infrastructure from climatic extremities in recent years. Prolonged serious drought followed by major flooding in the Gippsland region and, in turn, by intensive and devastating bushfires have, since 2006, necessitated large financial outlays by government for unplanned infrastructure works and business and community support services.

This pattern of extreme climatic occurrences continued late in 2010 and early in 2011 with major flooding across large areas of the State. The budget papers indicate that the floods '*affected more than 20 per cent of the State, including 5 000 people in 83 towns.*'<sup>31</sup>

As mentioned in Section 2.2 above, the Government has identified 'flood response' as one of its themes underpinning the direction of new funding within the 2011-12 Budget.

Details of individual output and asset funding allocations for the Government's flood response over the five-year period to 2014-15, which includes 2010-11, are presented as government-wide initiatives in the service delivery budget paper.<sup>32</sup> There are 38 special government-wide allocations with aggregate funding totalling \$426.5 million made up of \$329.0 million in output initiatives and \$97.5 million in asset initiatives.

For both output and asset initiatives, well over 90 per cent of funding has either already been expended in 2010-11 or will be expended in 2011-12, which illustrates the urgency of the recovery and repair tasks faced by the Government. This urgency was identified by the Treasurer in his April 2011 Economic and Financial Statement when he stated that the

31 Victorian Budget, *2011-12 Budget Overview*, May 2011, p.6

32 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.94-101

Government ‘stepped in at an early stage to support economic activity in affected towns and to assess the damage to infrastructure.’<sup>33</sup>

In terms of anticipated costs arising from the floods, the Treasurer indicated in his April 2011 Economic and Financial Statement that:<sup>34</sup>

*The gross cost of responding to flood damage is being assessed, and will be fully outlined by the Government in the lead up to the 2011-12 budget. The costs will include repairs to roads, hospitals, levees, a range of community infrastructure and natural assets on public land.*

*Some of these funds will be recovered through insurance, as well as through the National Disaster Relief and Recovery Arrangements. However, there will be a significant net contribution from the Victorian Government, which is committed to ensuring that those local communities affected are assisted through asset repair and ongoing strategies to retain their economic independence.*

The budget overview document states that the total cost of emergency response, repairs to state-owned assets and support for community recovery arising from the devastating floods in Victoria late in 2010 and early in 2011 is estimated at \$676 million with \$115 million likely to be recouped from insurance.<sup>35</sup> These figures indicate an overall net cost to the Government of \$561 million. However, the budget papers do not reconcile this assessed net cost with the total of \$426.5 million listed as government-wide funding allocations in response to the floods.

The budget papers also do not separately identify the level of expected financial assistance from the Commonwealth Government for the 2010 and 2011 floods under national disaster relief and recovery arrangements. The papers show that natural disaster relief funding from the Commonwealth Government totalling \$515.0 million is expected to be received in 2011-12 compared with a revised estimate of \$83.6 million in 2010-11.<sup>36</sup> The papers state that the increase of \$431.4 million in expected Commonwealth natural disaster funding in 2011-12 ‘is driven by an increase in claims following recent extreme weather conditions, particularly bushfires and floods.’<sup>37</sup>

Subsequent to the State Budget, the Commonwealth identified in its 2011-12 Budget that:<sup>38</sup>

*The Commonwealth has also announced its intention to provide an advance payment of \$500.0 million to Victoria for flood reconstruction and recovery in that State.*

The Committee considers that inclusion within the budget papers of a statement quantifying the expected sources and application of funds for natural disasters and the likely net cost to the Government would assist the Parliament in analysing this component of a budget.

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33 Department of Treasury and Finance, *Victorian Economic and Financial Statement*, April 2011, p.11

34 *ibid.*

35 Victorian Budget, *2011-12 Budget Overview*, May 2011, p.6

36 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.162

37 *ibid.*, p.168

38 Commonwealth Government, *Budget Paper No.3 2011-12, Australia's Federal Relations*, May 2011, p.9

Ten of the State's 11 departments have been allocated funding under the government-wide initiatives for specific flood purposes, highlighting the spread of management responsibility across the public sector for flood response and recovery actions.

The main government-wide funding initiatives, in dollar terms, for the Government's flood response, as listed in the budget papers, are:

- *Repair of flood damage to arterial roads*, to be managed by the Department of Transport – output funding of \$121.5 million;
- *Restoring and reopening Victoria's Parks*, to be managed by the Department of Sustainability and Environment – total funding of \$60.2 million comprising \$45.7 million for asset outlays and \$14.5 million for output spending;
- *Exceptional disaster assistance for primary producers, small and medium businesses*, to be managed by the Department of Treasury and Finance – output funding of \$34.5 million;
- *Flood recovery and repair on public land*, to be managed by the Department of Sustainability and Environment – total funding of \$34.0 million made up of \$29.4 million for asset outlays and \$4.6 million for output spending;
- *Flood recovery community infrastructure fund*, to be managed by the Departments of Sustainability and Environment and Planning and Community Development – output funding of \$30.0 million;
- *Repair of flood damage to the regional rail network*, to be managed by the Department of Transport – output funding of \$20.4 million; and
- *Goulburn-Murray irrigation district flood recovery and floodplain restoration*, to be managed by the Department of Sustainability and Environment – total funding of \$17.5 million comprising \$10.6 million for asset outlays and \$6.9 million for output spending.

There are many other allocations that are smaller in dollar terms but highly important in assisting flood-affected businesses, farmers and residents in their recovery efforts. Such allocations include psychosocial support measures, assistance for regional tourism, interim accommodation plans, disease control, community and business recovery funds and local government clean-up works.

The Committee considers that the unforeseen demands placed on governments when responding to major natural disasters and their impact on state-owned assets, businesses and the community necessitate high standards of management and comprehensive external reporting of attained results.

The Committee therefore looks forward to transparent reporting by the Government to Parliament on its management of flood response funding and the level of effectiveness in achieving the various expected recovery and repair outcomes. Such reporting should include a standard presentation format to be used by each department for reporting in its annual report on its performance in meeting targeted outcomes. The departmental reporting should be accompanied by a whole-of-government special-purpose accountability statement incorporated in the Government's annual financial report over the next few years.

## 2.6 Funding for infrastructure investments

### 2.6.1 Level of net estimated infrastructure investment

The 2011-12 budget papers show that net infrastructure investment in the general government sector in 2011-12 is projected to be \$6.1 billion and to average \$4.6 billion over the three-year forward estimates period to 2014-15.<sup>39</sup> The estimated proceeds from asset sales are deducted from the gross forecast expenditure on approved capital projects to arrive at this net investment figure.

Table 2.3 shows the projected percentage movements for the level of funding of the net investment in fixed assets available from cash operating surpluses, after adding back non-cash items such as depreciation, over the period to 2014-15. These movements have been computed by the Committee from the data included in the budget papers.

**Table 2.3: Forecast percentage of projected infrastructure program funded from cash operating surpluses, 2011-12 to 2014-15**

| Item                                     | 2011-12<br>(\$ million) | 2012-13<br>(\$ million) | 2013-14<br>(\$ million) | 2014-15<br>(\$ million) | Total<br>(\$ million) |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-----------------------|
| Net operating cash flow (a)              | 2,482.3                 | 2,779.2                 | 2,880.9                 | 2,692.0                 | 10,834.4              |
| Total net investment in fixed assets (b) | 6,143.5                 | 5,892.1                 | 4,114.4                 | 3,865.0                 | 20,015.0              |
|  | (%)                     | (%)                     | (%)                     | (%)                     | (%)                   |
| Percentage of (a) over (b)               | 40.4                    | 47.2                    | 70.0                    | 69.7                    | 54.1                  |

Source: Percentages calculated by Committee from data in Budget Paper No. 2, 2011-12 Strategy and Outlook, May 2011, p.31

These percentage movements indicate that around 54 per cent of the total projected \$20.0 billion infrastructure program to 2014-15 will be funded from cash operating surpluses. The remainder will be financed through additional borrowings. The equivalent estimated percentage of funding from operating surpluses identified in last year's budget was a higher 74 per cent.<sup>40</sup> The fall in percentage mainly reflects the new Government's expectation of lower operating surpluses over the forward years than the previous forecasts.

The 2011-12 budget papers explain that the estimated reduction in the cost of the infrastructure program over the period to 2014-15 takes into account an expected easing of the Commonwealth Government's stimulus funding.<sup>41</sup>

Information on the composition of the State's infrastructure investment program in the general government sector is spread across the various 2011-12 budget papers. For example:

- the *2011-12 Strategy and Outlook* (Budget Paper No.2) identifies the forecast net cash investment in fixed assets and shows the estimated aggregate new asset funding for each department in 2011-12, totalling \$596.4 million, and the related total estimated investment (TEI) of \$1.7 billion;

39 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.31

40 Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates – Part One*, May 2010, p.16

41 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.31

- the *2011-12 Service Delivery* (Budget Paper No.3) details each new asset funding initiative under departmental headings and the allocation of funding for each initiative across forward years to 2014-15. The funding estimates identify the projected aggregate cost of the Government's asset election commitments to be managed by each department, with the details of such commitments presented in a separate section of the document;
- the *2011-12 State Capital Program* (Budget Paper No.4) – which, in a positive move by the Government, is presented as a budget paper – provides information on all key infrastructure projects in the general government sector and those projects managed by public non-financial corporations. It lists individual new and existing capital projects and shows their TEI, estimated expenditure to 30 June 2011, estimated expenditure in the ensuing 2011-12 budget year and remaining expenditure. The aggregate spending details differ from those presented in other budget papers because of threshold conventions, with the published information relating only to projects in the general government sector with a TEI equal to or in excess of \$250,000<sup>42</sup>; and
- the *2011-12 Statement of Finances* (Budget Paper No.5) identifies within each department's projected financial statements the expected payments for non-financial assets in 2011-12. As mentioned in the capital program budget paper, these financial estimates may differ from the material published in that document because of the applied threshold conventions.<sup>43</sup>

The Committee considers that this scattered approach to the presentation of the budgeted infrastructure program, with data recorded in particular budget papers not readily reconcilable with related material in other budget papers, hinders the Parliament's analysis of such an important element of the Budget. While the quantity of presented data is ample, there is scope, from a user's perspective, to enhance its quality.

The Committee advocates that the Government examine opportunities for making the presentation of the annual infrastructure program in the budget papers more user-friendly to Parliament and other readers. The aim should be to present asset spending estimates on a consistent basis throughout the budget papers, with readers able to readily identify the key components of the annual program, dissected according to new and ongoing allocations, with each budget paper reconciling with related material in other papers. In addition, budgeted asset expenditure estimates should be accompanied by information disclosing the sources of funding with a breakdown between Commonwealth contributions and State allocations.

In his April 2011 Economic and Financial Statement, the Treasurer flagged that a key element of the Government's fiscal strategy involved:<sup>44</sup>

*... introducing more rigorous oversight by the Department of Treasury and Finance to ensure major projects are delivered on time and on budget in order to prevent future cost overruns of the breadth and magnitude of those inherited from the previous government.*

42 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, p.5

43 *ibid*, p.9

44 Department of Treasury and Finance, *Victorian Economic and Financial Statement*, April 2011, p.11

The Committee was informed at its budget estimates hearing that a high-risk, high-value unit had been established in the Department of Treasury and Finance which will adopt more rigorous central oversight of high-risk, high-value infrastructure projects. The unit's role was described as:<sup>45</sup>

*... a process where Treasury will be much more involved in the rigour around strategic assessment of the investment in the first place, business cases, the right procurement approach, the right project team and governance arrangements to be put in place and for the Treasurer to have at those points the ability to decide whether or not he is happy with the business case, for example, and whether that goes forward to BEREC for funding consideration. That process will then proceed through the tendering or the expression of interest to the market, the tendering approach and the final decision together with the responsible portfolio minister. We are building a lot more rigour, particularly around the front end of investment to try and improve the quality of the outcome, both in terms of time and cost.*

The budget papers refer to this strategy, which will have particular emphasis on high-value and high-risk capital projects.<sup>46</sup> The Committee suggests the Government may wish to consider extending the ambit of this strategy, with its focus on capital projects, to incorporate identification of avenues for enhancing the presentation of information relating to the annual infrastructure program in its future budget papers and future annual financial reports.

## **2.6.2 Net debt projections**

Net debt is defined in the budget papers as:<sup>47</sup>

*The sum of borrowings and deposits held and advances received less the sum of cash and deposits, advances paid, and investments, loans and placements.*

The budget papers show that general government net debt is projected to rise from the latest revised level at June 2011 of \$11.9 billion to \$16.8 billion at June 2012, to \$20.8 billion by June 2013 and to \$23.2 billion by the end of the forward estimates period of June 2015.<sup>48</sup>

As a percentage of Gross State Product (GSP), general government net debt is expected to increase from 3.7 per cent at June 2011 to 5.0 per cent at June 2012 and to 5.9 per cent by June 2015.<sup>49</sup> The budget papers state that:<sup>50</sup>

*Net debt is expected to increase by 30 June 2013 but stabilise as a proportion of GSP thereafter. This increase is higher than expected at the time of the 2010-11 Budget Update, reflecting the significant revenue shock associated with the*

45 Mr J. Fitzgerald, Department of Treasury and Finance, 2011-12 budget estimates hearing for the Treasurer's portfolio, transcript of evidence, 6 May 2011, p.29

46 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, pp.2-4

47 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.33

48 *ibid.*

49 *ibid.*

50 *ibid.*

*Commonwealth Grants Commission's recommended decrease in Victoria's share of the total GST pool, slower growth in the overall GST pool and a larger capital program funded through borrowing. The measures taken in this budget take the necessary steps towards placing the State's finances on a more secure and sustainable footing.*

These comments can be considered in conjunction with the reference in the Treasurer's April 2011 Economic and Financial Statement that one of the Government's important fiscal commitments involves 'moving to a sustainable level of public debt over time, and maintaining a triple-A credit rating.'<sup>51</sup> The Treasurer further elaborated on this point at the Committee's estimates hearing, the transcript of which can be found on the Committee's website.<sup>52</sup>

For the non-financial public sector, net debt is estimated to be \$20.4 billion at June 2011 (6.4 per cent of GSP) rising to \$38.6 billion (9.9 per cent of GSP) by June 2015.<sup>53</sup>

With regard to any impact on Victoria's current credit rating from the 2011-12 Budget, Standard & Poor's issued a bulletin on the day of the Budget's release identifying that its AAA credit rating on Victoria is not immediately affected by the Government's announcement of its 2011-12 Budget. In the bulletin, the agency stated:<sup>54</sup>

*While budgetary performance is somewhat weaker than forecast at the time of the Dec. 21, 2010, mid-year budget update, due primarily to lower GST transfers from the Commonwealth of Australia..., Standard & Poor's expects savings measures to partly mitigate the impact of these lower revenues. As a result, Standard & Poor's expects the general government to record accrual operating surpluses while the non-financial public sector will record small accrual operating deficits over the forward estimates period. Gross debt is forecast to rise modestly through the budget year and forecast period, with non-financial public sector net financial liabilities peaking at about 112% of operating revenues next year. Standard & Poor's considers that the state has the capacity to carry this increased debt burden at the current rating level.*

Moody's also issued a confirming announcement on 4 May 2011, which stated that 'Victoria's Aaa rating is stable and is unlikely to change with the release of its 2011/12 budget' and that:<sup>55</sup>

*As part of our normal monitoring process, we intend to conduct an in-depth analysis of the budget and its medium-term impact on the state's financial and debt profile. However, the budget projects deterioration in Victoria's financial results for 2011/12 and over the medium term.*

*... less-positive trends reflect slower-than-anticipated growth in GST-backed commonwealth revenues, which is due to a reduction [in] the state's share of*

51 Department of Treasury and Finance, *Victorian Economic and Financial Statement*, April 2011, p.12

52 Mr K. Wells MP, Treasurer, 2011-12 budget estimates hearing, transcript of evidence, 6 May 2011, p.16

53 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.44

54 Standard & Poor's, 'Ratings on Australia's State of Victoria unchanged after State Budget announcement', 3 May 2011

55 Moody's Investors Service, 'Announcement: Moody's comments on State of Victoria's 2011/12 Budget', 4 May 2011

*equalization grants implemented as part of the 2011 Grants Commission Review. However, the state's financial performance also reflects a higher level of current expenditures related to the election commitments of a new administration as well as a planned increase in capital spending. ...*

*Given the state's historically prudent financial and debt management practices which have led to its positive financial position, we believe that the state will implement the necessary reforms to produce better-than-projected outcomes.*

It can be seen that both rating agencies have expressed in their announcements a level of confidence on the State's capacity to bring about, in the light of issues on expenditure levels and rising debt raised in the Budget, sustainable financial and economic outcomes which are consistent with the current AAA credit rating. The Committee intends to direct particular attention in its future budget estimates and budget outcomes reports to the nature of future medium to long-term fiscal strategies announced by the Government and the effectiveness of their implementation over time in producing sustainable financial and economic outcomes.

## **2.7 Contingency provisions**

Contingency provisions available to the Government in the general government sector, as presented in the 2011-12 budget papers, fall into three categories, namely:

- contingencies for unallocated operating expenses;
- contingencies for unallocated capital spending; and
- the year's contingency provision available as an Advance to the Treasurer to meet urgent claims proposed in the Appropriation (2011/2012) Bill 2011.

These provisions provide a buffer to a government in the event of significant unforeseen events so that the underlying budget setting and forecast budget outcomes including operating results can be protected.

The dissection of budgeted operating expenses by departments presented in Note 12 to the 2011-12 Estimated Financial Statements discloses that 'Contingencies not allocated to departments' are estimated to total \$342.2 million in 2011-12 as part of a total of \$6.0 billion for the four year period to 2014-15.<sup>56</sup> An explanatory note states that this contingency:

*...includes a provision for programs lapsing, future demand growth, departmental underspending and items not yet formalised at the time of publication.*

For the second contingency category, unallocated capital spending, the contingency provision is presented in the strategy and outlook budget paper as a 'capital provision approved but not yet allocated' amounting to \$2.7 billion over the three year period 2012-13 to 2014-15 (nil in 2011-12).<sup>57</sup> This provision forms part of the computation of estimates for the net cash investment in fixed assets which, as described in the Committee's earlier commentary on infrastructure funding, is projected to be financed over the four-year period to 2014-15 by a combination of operating cash surpluses and increases in net debt.

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56 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.31

57 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.31

The third form of contingency provision in 2011-12, an advance to the Treasurer, is proposed in the Appropriation (2011/2012) Bill 2011 currently before the Parliament to meet urgent claims that may arise before Parliamentary sanction is obtained. The proposed 2011-12 estimate which forms part of the appropriation for the Department of Treasury and Finance is \$779.1 million.

In Table 2.4, the Committee has brought together the three contingency items and shows their estimated provision over the four year period to 2014-15.

**Table 2.4: Contingency items within the 2011-12 Budget and Appropriation Bill**

| Contingency item   | 2011-12<br>(\$ million) | 2012-13<br>(\$ million) | 2013-14<br>(\$ million) | 2014-15<br>(\$ million) | Total<br>(\$ million) |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-----------------------|
| <i>Output contingencies</i>  |                         |                         |                         |                         |                       |
| Output contingencies not allocated to departments <sup>(a)</sup>   | 342.2                   | 1,398.1                 | 1,815.4                 | 2,422.5                 | 5,978.2               |
| Advance to the Treasurer to meet urgent claims that may arise before Parliamentary sanction <sup>(b)</sup> | 779.1                   | -                       | -                       | -                       | 779.1                 |
| Total <sup>(b)</sup>   | 1,121.3                 | 1,398.1                 | 1,815.4                 | 2,422.5                 | 6,757.3               |
| <i>Asset contingencies</i>   |                         |                         |                         |                         |                       |
| Capital provision approved but not yet allocated <sup>(c)</sup>  | -                       | 394.3                   | 489.1                   | 1,865.0                 | 2,748.4               |

Sources: (a) *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.31*

(b) *Appropriation (2011/2012) Bill 2011, page 16 of Schedule 1. The total shown is a minimum figure as, based on past practice, a similar provision would be made for each year beyond 2011-12.*

(c) *Budget Paper No.2, 2011-12, Strategy and Outlook, May 2011, p.31*

In effect, if the budget fundamentals remain unchanged during the forecast period to 2014-15, the Government has available a buffer of over \$6.7 billion for operating purposes and \$2.7 billion for capital purposes for use without impairing budget projections, including operating results. These contingencies therefore provide significant budgetary flexibility to the Government.

The Committee recognises that it is difficult to be precise on what constitutes an appropriate level of contingency provision available to a government over any budget and forward estimates period. On the one hand, it can be argued that adequate allowance for contingencies in budget estimates is a fundamental component of sound risk management in order to provide a buffer against the impact of unforeseen occurrences such as bushfires and floods, as experienced in Victoria in recent years, or changes in global or local economic conditions. The counter argument is that excess reserve provisions in budgets should be avoided with freed up funds allocated to key services on behalf of the community.

The Committee does not favour a view one way or the other on the ideal quantum of contingency provisions. Rather, it holds the view that the management of contingencies is a significant element of a government's fiscal responsibilities. It considers that there should be maximum transparency and accountability in communications to the Parliament concerning the role of contingencies in the budgetary process and the basis adopted for their quantification. The latter should incorporate details of the methodology utilised in calculating the level of both operating and capital contingencies.

Given the magnitude of the current contingency provisions and the limited explanatory information on contingencies incorporated annually in the budget papers, the Committee advocates that the presentation of narrative and tabular information on contingencies be presented in a consolidated form within the budget papers and be structured in a way that assists the Parliament's analysis of contingencies and their underlying purpose within the subject budget. This prospective information should be matched by detailed retrospective reporting to Parliament in the Government's annual financial report of the drawdowns from contingencies that were made in the financial period.

## CHAPTER 3: REVIEW OF THE BUDGET PAPERS

### Chapter overview:

- 3.1 Identifying ways that the transparency and usability of the budget papers can be improved is one of the key elements of the Committee's inquiry into the budget estimates. The Minister for Finance has also welcomed the Committee's feedback on the format of the budget papers. The Committee has made a range of recommendations throughout the report to this end.
- 3.2 A number of changes have been made to the budget papers in 2011-12 compared to 2010-11. This includes changes to the presentation of information, discussion of some additional topics and the publication of supplementary data online for the first time. Overall, the number of pages in the budget papers has reduced from 1,118 to 911.
- 3.3 Much of the reduction is due to the change of government, as substantial sections in previous budget papers related to the previous government's *Growing Victoria Together* policy. The Committee looks forward to seeing additional information in future budgets as more formal policies are released by the new government.
- 3.4 The service delivery budget paper now provides information about the funding available to each department. This information could be enhanced by explaining the impact of the amount of funding on each department's outputs and the relationship between changes to the department's outputs and its expected expenditure.
- 3.5 In 2011-12, a budget paper dedicated to asset investment has been included for the first time and is welcomed by the Committee. Previously, this was issued as a budget information paper and, prior to 2010-11, this paper was not provided with the other budget papers, but appeared several months later. The Government has also disclosed in this budget paper for the first time a list of projects identified as high-value and high-risk.
- 3.6 Another innovative disclosure noted by the Committee is that, for the first time, Budget Paper No.5 (*2011-12 Statement of Finances*) includes financial statements for public financial sector and the State as a whole. There is scope for enhancing this budget paper by increasing definitions and explanations, providing more details of controlled entities and including high-level analyses of the departmental operating statements.
- 3.7 The Committee also believes that it would be useful for the budget papers to include more information about the geographic distribution of budget funding. In the 2011-12 budget papers, some more details about the impact of the 2010-11 *Pre-Election Budget Update* would also have been useful.
- 3.8 The Organisation for Economic Cooperation and Development and the International Monetary Fund have provided a number of criteria for better practice in budgetary transparency. The Committee assessed the 2011-12 budget papers against 25 criteria and considers that 16 were met and 8 were partially met. The Committee did not have sufficient information to assess one measure.
- 3.9 Although the Committee sought details from the Department of Treasury and Finance and other departments on the cost of developing the State Budget, few were able to supply information, as the tasks were part of departments' general work programs rather than stand-alone projects.

### 3.1 Introduction

As outlined in Chapter 1 of this report, the Public Accounts and Estimates Committee undertakes an inquiry into Victoria's budget estimates and the budget papers each year, a legislative responsibility under Section 14 of the *Parliamentary Committees Act 2003*. One of the key elements of this is a focus on promoting transparency and usability in the budget papers.

At the budget estimates hearing, the Minister for Finance advised the Committee that, '*there is a wide range of enhancements to the budget papers [in 2011-12], which we believe and expect will be beneficial, and we certainly welcome feedback from the PAEC as to how members of the committee find the new format.*'<sup>75</sup> The Committee has explored in some detail the changes that have occurred in 2011-12 and presents its feedback in this chapter and throughout this report.

Budget papers are generally recognised as important documents in the Government's accountability framework. The Organisation for Economic Cooperation and Development (OECD) has expressed the view that:<sup>76</sup>

*The relationship between good governance and better economic and social outcomes is increasingly acknowledged. Transparency – openness about policy intentions, formulation and implementation – is a key element of good governance. The budget is the single most important policy document of governments, where policy objectives are reconciled and implemented in concrete terms. Budget transparency is defined as the full disclosure of all relevant fiscal information in a timely and systematic manner.*

The Committee also notes that the view expressed by the OECD that, as budgets are key policy documents for governments, they '*should be comprehensive, encompassing all government revenue and expenditure, so that the necessary trade-offs between different policy options can be assessed.*'<sup>77</sup>

A number of changes have occurred in the 2011-12 budget papers compared to 2010-11, which are discussed in detail below. The Committee considers that there is scope for improvements in the presentation of material in the budget papers that will enhance transparency. The Committee offers a range of recommendations for consideration by the Government, which are set out later in this chapter and throughout the other chapters of this and other parts of this report.

In particular, four main areas of potential improvement in budget transparency have been identified, and many of the Committee's recommendations relate to these areas:

- reconciling figures provided in one place with figures provided in another;
- breaking down large sums of money into their component parts;
- explaining variations between funding in the budget year and budget allocations or expenditure in the previous year; and

75 Hon. R. Clark MP, Minister for Finance, 2011-12 budget estimates hearing, transcript of evidence, 13 May 2011, p.7

76 Organisation for Economic Cooperation and Development, 'OECD Best Practices for Budget Transparency', *OECD Journal on Budgeting* <[www.oecd.org/gov/budget/journal](http://www.oecd.org/gov/budget/journal)>, 2002, Vol. 1 No.3, p.7

77 *ibid.*, p.8

- linking funding to anticipated outcomes.

Most of the Committee's recommendations about the budget papers suggest that the additional disclosure should occur in the budget papers in future years. However, the Committee notes the provision of supplementary budget data online this year. If the Government is concerned about the practicability of including all of the additional disclosure recommended by the Committee in the budget papers, it may wish to consider providing some of that information online, so long as the budget papers clearly and transparently indicate where this additional information can be found.

### 3.2 The budget papers in 2011-12

Information about the 2011-12 Budget is provided through five budget papers, accompanied by an overview document and a number of online spreadsheets. The number and type of budget papers provided in 2011-12 is generally similar to what was provided for the 2010-11 Budget, with the following differences:

- what has been provided in 2011-12 as Budget Paper No.4 was provided in 2010-11 as a budget information paper accompanying the budget papers;
- in 2010-11 a second budget information paper (*Putting Patients First*) was released detailing expected expenditure in the health area, which has not been repeated in 2011-12; and
- in 2011-12 a range of spreadsheets with budget-related information were published online for the first time.

The Committee notes that the information paper on health expenditure in 2010-11 was not a regular feature of past budgets, but was produced in 2010-11 due to particular circumstances in that year (specifically a number of major health initiatives in the 2010-11 Budget and a major reform agreed by the Council of Australian Governments). The Committee would not expect to see such an information paper provided every year.

When asked about changes to the presentation of the budget papers at the budget estimates hearing, the Minister for Finance explained:<sup>78</sup>

*We have made a series of changes in these budget papers to try to make them easier to read, to reduce repetition and to improve cross-referencing. There is a compliance index in budget paper 5. The introduction of budget paper 5 itself is a renumbered budget paper to recognise the fact that the former budget information paper 1 has become budget paper 4, as to capital initiatives by government, to integrate it more directly into the budget papers.*

*One of the key reforms that we have made ... is to publish a range of information online in a readable and analysable format; in other words, in the format of Excel spreadsheets. ...*

*Other changes that we have made are that we have taken the former economic reform agenda chapter into 'Chapter 2 — Economic context' in BP2. We have embedded explanations of variances for performance measures in BP3 into the*

78 Hon. R. Clark MP, Minister for Finance, 2011-12 budget estimates hearing, transcript of evidence, 13 May 2011, p.7

tables. I think that makes them a lot more easily legible and intelligible than they were in the previous format of footnotes. We have tried to improve the clarification of departmental objectives and strategic priorities and improve some of the reconciliation between the appropriation bill and other information, which I know is often the bane of members' lives.

In terms of the contents of the budget papers, the Committee notes that overall there has been a marked reduction in the amount of information provided in most budget papers (see Table 3.1).

**Table 3.1: Length of the budget papers, 2010-11 compared to 2011-12**

| Budget paper                                 | Number of pages in the equivalent 2010-11 budget paper | Number of pages in the 2011-12 budget paper | Change 2010-11 to 2011-12<br>(number of pages) |
|--|--|---|--|
| Budget Overview                              | 24   | 24  | 0  |
| Budget Paper No.1<br>(Treasurer's Speech)    | 11   | 11  | 0  |
| Budget Paper No.2<br>(Strategy and Outlook)  | 97   | 63  | -34  |
| Budget Paper No.3<br>(Service Delivery)      | 488  | 425   | -63  |
| Budget Paper No.4<br>(State Capital Program) | 157  | 121   | -36  |
| Budget Paper No.5<br>(Statement of Finances) | 341  | 267   | -74  |
| <b>Total</b>                                 | <b>1,118</b>   | <b>911</b>                                  | <b>-207</b>                                    |

Sources: 2010-11 and 2011-12 budget papers

One of the main reasons for this change is that the 2010-11 budget papers provided a lot of detail relating initiatives and projects to the *Growing Victoria Together* vision of the Government of the day. With the change of government between the 2010-11 and 2011-12 Budgets, *Growing Victoria Together* has ceased to be Government policy. Consequently, it is sensible for the Government to no longer categorise its information along those lines.

However, there has also been a variety of changes to the budget papers relating to matters other than *Growing Victoria Together*. The following sections highlight some of the more significant differences between the 2011-12 budget papers and the 2010-11 budget papers.

### 3.2.1 2011-12 Budget Overview

The Budget Overview provides a high-level description of the Budget according to a number of key themes. Table 3.2 compares the themes in the 2010-11 and 2011-12 Budget Overviews. Where appropriate, the themes of the 2011-12 Overview have been listed with the closest equivalent from the 2010-11 Overview.

**Table 3.2: Comparison of the themes in the 2011-12 Budget Overview and the 2010-11 Overview, identifying approximately equivalent themes where possible**

| 2011-12 themes                    | 2010-11 themes   |
|-----------------------------------|--|
| strengthening Victoria's finances | –  |
| boosting Victoria's economy       | more jobs and a resilient, competitive Victorian economy |
| flood response                    | bushfire reconstruction and recovery                     |
| cost of living                    | –  |
| community safety                  | promoting community safety                               |
| rebuilding our transport system   | delivering the <i>Victorian Transport Plan</i>           |
| regional and country Victoria     | new support and investment for regional Victoria         |
| health and hospitals              | <i>Putting Patients First</i>                            |
| education and skills              | investing in our schools                                 |
| supporting local communities      | maintaining Victoria's liveability                       |
| integrity of government           | –  |
| –                                 | more support and services for children and families      |
| –                                 | a budget for all Victorians                              |
| –                                 | a fairer Victoria  |
| –                                 | sustainability and the environment                       |

Sources: *Victorian Budget, 2010-11 Overview, May 2010*;  
*Victorian Budget, 2011-12 Budget Overview, May 2011*

The Committee considers it reasonable for this document to change from year to year as the Government's priorities and focus change. Even prior to the change of government in 2010, the Committee notes that there were significant variations in the themes outlined in the overview from one budget to another.

Prior to the 2011-12 Budget, one useful and transparent element of the overview that had appeared every year for over a decade was a section entitled 'A budget for all Victorians'. This section broke the Budget down according to the different regions of Victoria, listing the key programs and projects for each region. This section does not appear in the *2011-12 Budget Overview*. While the Committee notes that there is a section detailing the funding provided for regional and country Victoria, this section does not break this funding down according to the different areas of regional Victoria, nor does it include funding specifically for Melbourne. The disclosure of the geographic distribution of funding is discussed further in Section 3.3.1 below.

### **3.2.2 Budget Paper No.1 (2011-12 Treasurer's Speech)**

Budget Paper No.1 simply replicates the second reading speech made by the Treasurer for the Appropriation (2011/2012) Bill 2011. In this, it follows the same format as previous years.

### 3.2.3 **Budget Paper No.2 (2011-12 Strategy and Outlook)**

Budget Paper No.2 in 2011-12 includes details of:

- the economic context of the Budget;
- the Government's economic and fiscal strategies;
- an analysis of key fiscal elements of the Budget for the general government sector and non-financial public sector (which includes the general government sector and the public non-financial corporations sector);
- a reconciliation of the 2011-12 Budget forward estimates to the estimates in the 2010-11 Budget Update; and
- a sensitivity analysis of the effects of key economic factors varying by 1 per cent from the Government's estimates.

There have been a number of changes to the format compared to last year, which the Government has indicated are designed '*to enhance the overall level of transparency and disclosure.*'<sup>79</sup> These changes include restructuring and the provision of some additional information (e.g. about debt, financial liabilities and the impact of one-off Commonwealth grants). There is also a brief commentary for the first time on the public financial corporations sector and the State as a whole (i.e. the general government, public non-financial corporations and public financial corporations sectors). This matches the additional disclosure of information about these sectors in Budget Paper No.5.

In general, though, this budget paper contains significantly less information on many topics than the equivalent budget paper in 2010-11. Some topics, such as the COAG Reform Agenda, as noted in Chapter 8 of this report, do not appear at all. The budget papers do not provide an explanation for why this information has not been included, other than to note that one of the chapters has been '*streamlined to focus on the key economic and fiscal challenges facing the State.*'<sup>80</sup>

A number of recommendations have been made in this report for additional disclosures that might be most appropriately provided in Budget Paper No.2 in the future.

### 3.2.4 **Budget Paper No.3 (2011-12 Service Delivery)**

Budget Paper No.3 has seen significant changes to its structure in 2011-12 due to the change of government in 2010. Specifically, in 2010-11 there were two chapters linking new budget initiatives, past government achievements and 2010-11 departmental outputs to the *Growing Victoria Together* goals, along with a report tracking the Government's progress towards the *Growing Victoria Together* goals. The 2010-11 budget paper also included 'report cards' on the Government's progress at implementing its 2006 election commitments and the *Victorian Transport Plan*.

The change of government made these chapters and appendices redundant and they have been replaced by an expanded introduction. This introduction identifies the current government's

79 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.1

80 *ibid.*

priorities and how the 2011-12 Budget responds to these, largely according to the themes presented in the Budget Overview. Significantly less information is provided linking the expected service delivery to the Government's priorities and objectives in the budget paper in 2011-12 compared to 2010-11.

The Committee considers that it is important from a transparency perspective for there to be clear linkages between Government objectives and funding provided in budgets, especially funding for new initiatives released in a budget. The Committee hopes to see more of this sort of information provided in future budget papers as the Government releases more policies and quantified targets.

Some smaller changes have also been made to the chapter detailing the departmental output statements (Chapter 3). This chapter lists the various outputs that each department intends to deliver in 2011-12, along with associated performance measures and introductory information. One change is that, whereas the 2010-11 budget paper included a section on the 'major policy decisions and directions' affecting each department, this does not appear in 2011-12. As with other aspects of this budget paper, while the Committee considers that this is appropriate given that there were few formal policies released at the time of the 2011-12 Budget, the Committee hopes to see this information return in the future as policies are released.

**Recommendation 3: As more formal policies are released by the Government, additional information be provided in the service delivery budget paper detailing the relationship between departmental outputs, new initiatives and Government policies and objectives.**

Another change to the chapter detailing the departmental output statements is that the introductory information for each department now also includes details of the amounts of money available to each department for the budget year and compares this to previous years. This information consists of:

- an extract of the 'income from transactions' section of the departmental operating statements which appear in Budget Paper No.5 (including the budget year and previous two years); and
- a table detailing the 'Parliamentary authority for resources' for the budget year and prior year (this was provided along with the departmental operating statements in Budget Paper No.4 in 2010-11).

The Committee welcomes the presentation of this information in Budget Paper No.3 but considers that the inclusion of this information would be more meaningful if some commentary were provided explaining the impact of changes in the amounts of funding available on the outputs detailed in the chapter. The information could also be enhanced by the provision of commentary on any major differences between the total income from transactions and the Parliamentary authority for resources.

**Recommendation 4: Future service delivery budget papers explain the impact on each department's outputs of changes in the amounts of funding available for the department.**

**Recommendation 5: Future service delivery budget papers provide commentary on any significant differences between the total income from transactions and the Parliamentary authority for resources.**

As detailed in Section 7.3.4 of Chapter 7, the Committee also considers that providing more information about the relationship between the figures that appear in the expenses from transactions section of the departmental operating statements (in Budget Paper No.5) and the departmental output statements (in Budget Paper No.3) would enhance transparency. A possible way of doing this would be to include in Budget Paper No.3 an extract of the expenses from transactions section of the departmental operating statements, along with commentary on how changes in the expenditure categories relate to changes in the outputs. The Government may also wish to include here the explanations of any differences between the total expenditure for a department as provided in its operating statement and its total expenditure on outputs, as discussed and recommended in Chapter 7.

**Recommendation 6: Future service delivery budget papers include the ‘expenses from transactions’ section of the departmental operating statements, along with commentary on how changes in expenditure relate to changes in the outputs.**

There is also a difference in the way that new output, asset and revenue initiatives are presented in the 2011-12 budget paper. In 2011-12, new initiatives are divided into two chapters – one detailing initiatives that were election commitments and one detailing other initiatives. Although it is beyond the Committee’s remit to analyse the Government’s performance relative to its election commitments, the Committee notes that the separate listing of election commitment initiatives will facilitate such an analysis for any person wishing to undertake one.

### **3.2.5 Budget Paper No.4 (2011-12 State Capital Program)**

This budget paper details asset investment projects (above certain thresholds) currently underway in the general government sector and the public non-financial corporations. The budget paper follows the same format as Budget Information Paper No.1 (*2010-11 Public Sector Asset Investment Program*) from the 2010-11 Budget. This document has been elevated in status this year from being a budget information paper to being a budget paper.

The Committee notes that, prior to the 2010-11 Budget, the information in this budget paper was published several months after the budget papers. By making this a budget paper and not a budget information paper, the Government has ensured that this information will be provided at the time of the Budget. The Committee welcomes this progressive change, as this document contributes to providing a fuller picture of the Government’s intentions in the Budget.

The 2011-12 Budget Paper No.4 sees the introduction of information about the new measures undertaken by the Government with respect to managing high-value, high-risk projects. The Committee is pleased to see details provided of these measures, along with lists of the current and planned projects which have been classified as high-value and high-risk. Providing these lists will enable the Committee, along with the Parliament and community, to track the progress of these projects.

There was also, however, some information that was not included in the 2011-12 Budget Paper No.4 that had been previously provided, specifically:

- in 2010-11, the ‘*key strategic infrastructure projects*’ were categorised according to the relevant *Growing Victoria Together* themes, along with details of each project;
- additional details were provided in 2010-11 about Partnerships Victoria projects; and
- a pie chart indicating the proportions of asset projects in metropolitan Melbourne, regional Victoria and State-wide was included in 2010-11 but not 2011-12.

As discussed above, the Committee considers the removal of information relating to *Growing Victoria Together* appropriate. However, the Committee considers the reduction of information about Partnerships Victoria projects and the proportions of projects in different areas reduces transparency in important ways. Partnerships Victoria projects are discussed further in Chapter 5 and geographic matters in Section 3.3.1 below.

### **3.2.6 Budget Paper No.5 (2011-12 Statement of Finances)**

Budget Paper No.5 for 2011-12, which is the equivalent to Budget Paper No.4 in 2010-11, is primarily focused on the financial statements for the general government sector and for each department. In addition, this budget paper includes the financial statements for the public financial sector and the State as a whole (i.e. the general government, public non-financial corporations and public financial corporations sectors) for the first time in 2011-12.

There have been a number of changes to the notes to the general government sector financial statements. Some of these changes involve providing additional break-downs that were not provided previously and some involve bringing together data that had been provided separately previously. The most significant changes to the notes, however, are that the ‘statement of significant accounting policies and forecast assumptions’ has been substantially reduced (from 32 pages in 2010-11 to 9 pages in 2011-12) and the ‘glossary of technical terms’ that was included in 2010-11 was not provided in 2011-12.

Most of the additional information that was included in the ‘statement of significant accounting policies and forecast assumptions’ in 2010-11 that was not included in 2011-12 related to explanations for line items in the financial statements, such as how the item was calculated, what was included and the forecast assumptions used. The Committee considers that the combination of not including this information, along with not including a glossary, reduces the transparency of the budget papers, as it can be difficult to understand many of the line items in the financial statements without some sort of explanation.

The Committee notes that the 2011-12 budget papers do advise that:<sup>81</sup>

*The detailed accounting policies applied in the preparation of the Estimated Financial Statements are consistent with those stated in the audited 2009-10 Annual Financial Report published in the 2009-10 Financial Report as presented to Parliament, unless otherwise stated.*

81 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.17

*To gain a better understanding of the terminology and key aggregates used in this report, a glossary of terms can be found in Note 38 of the 2009-10 Annual Financial Report.*

However, the Committee considers that explanations and definitions for the terms and items associated with the financial statements are an integral part of the financial statements and should be published together with it, without imposing a burden on a lay reader to search for information in other reports.

**Recommendation 7: Future ‘statement of finances’ budget papers include significantly more information about the terms used in the financial statements and more explanations for the line items, as has occurred previously, through a glossary and/or an expanded ‘statement of significant accounting policies and forecast assumptions’.**

Similarly, with respect to the note on ‘controlled entities’, whereas the 2010-11 budget papers listed all controlled entities which had been included in the financial statements, the 2011-12 budget papers refer the reader to the *2009-10 Financial Report for the State of Victoria* and only list those entities where changes have occurred since 1 July 2010.<sup>82</sup> As with the definitions and explanations, the Committee considers that this is important information for understanding the Budget. The Committee considers that the budget papers should be stand-alone documents that do not require reference to the Financial Report for the State in order to be understood.

**Recommendation 8: Future ‘statement of finances’ budget papers list all controlled entities which have been consolidated for the purposes of the report.**

With respect to the departmental operating statements, the 2010-11 budget paper provided a high-level analysis of the operating statements for each department. This analysis largely focused on explaining differences between the budget year and the prior year. In 2011-12, this analysis was not supplied. The Committee considers that this analysis was valuable for understanding the reasons behind budget allocations and should be re-instated.

**Recommendation 9: Future ‘statement of finances’ budget papers include a high-level analysis for each department of its operating statements, including explanations for significant variations from the prior year.**

### **3.2.7 Online data sets**

A new initiative for 2011-12 is that the Government has provided a series of spreadsheets online. These spreadsheets are in Excel format and contain either information that is in the budget papers or information that supplements data in the budget papers. The spreadsheets are grouped into five categories:

- macroeconomic indicators;

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82 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.39

- State taxation revenue;
- financial statements (for the general government sector);
- departmental financial statements; and
- other financial aggregates (such as key data from general government sector operating statements and cash flow statements, net debt, net financial liabilities and net infrastructure investment).

In addition to these spreadsheets, the Department of Treasury and Finance has also published online a series of data dashboards with graphs of net debt, net infrastructure investment and net financial liabilities over time, along with graphs of operating expenses by purpose in 2011-12 and break-downs of estimated taxation revenue over the forward estimates period.

The Committee notes that the Department of Treasury and Finance indicates that it *‘anticipates that over time, the breadth and depth of information made available and accessible via the website will be enhanced.’*<sup>83</sup>

The Minister for Finance explained the purpose of the online spreadsheets is *‘for people to be able to readily lay hands on data in a readily usable format to perform the sorts of analytics that people might reasonably want to.’*<sup>84</sup> In addition to providing data from the Budget in a more useable format, the online spreadsheets are also able to contain additional information to the printed budget papers (such as estimates made in previous budget papers and historical data going further back in time). This has certainly been useful to the Committee.

Overall, the Committee commends the Government for this initiative and looks forward to seeing additional data added in future years. The Committee has made a number of recommendations in this report suggesting data that might be added.

### 3.3 Additional areas of disclosure

The Committee recognises that there are many different ways that information about the budget estimates can be provided. The Committee also recognises that it is not practicable to provide information in every possible way, but that the value of the information needs to be assessed relative to the cost of providing it. However, the Committee has identified two major areas of disclosure that it considers are missing from the 2011-12 budget papers.

#### 3.3.1 *The geographic distribution of funding*

The Government has indicated that it is committed to providing *‘greater prosperity, new opportunities and a better quality of life to our regional cities and country communities.’*<sup>85</sup> Given this, the Committee considers that the Government’s actions towards these goals should be made clear and transparent by indicating what initiatives have been released targeted at regional cities and rural areas. The Committee also recognises that metropolitan Melbourne has issues specific to it and considers that the budget papers should reveal what initiatives have been released to deal with those issues.

83 Department of Treasury and Finance, ‘Financial data sets’, <[www.dtf.vic.gov.au/CA25713E0002EF43/pages/publications-financial-data-sets](http://www.dtf.vic.gov.au/CA25713E0002EF43/pages/publications-financial-data-sets)>, accessed 25 August 2011

84 Hon. R. Clark MP, Minister for Finance, 2011-12 budget estimates hearing, transcript of evidence, 13 May 2011, p.7

85 Victorian Budget, *2011-12 Budget Overview*, May 2011, p.14

The Committee of the previous Parliament made a number of recommendations in previous reports about increasing the disclosure of the geographic distribution of funding in the Budget. For example, in the *Report on the 2010-11 Budget Estimates*, the Committee's recommendations included that:<sup>86</sup>

- new initiatives be linked to strategic plans and critical issues affecting specific regions of the State; and
- a budget information paper be introduced that consolidates and stratifies funding initiatives provided to the regional and rural sector of Victoria according to geographic location, topic and department.

The current Government supported both of these recommendations in its responses, indicating for both that '*The Government is committed to ensuring that public funding to regional and rural Victoria is transparent.*'<sup>87</sup> In terms of future actions, the Government advised that:<sup>88</sup>

*[The Department of Treasury and Finance] will consider developing options to enhance the information available to the public on the link between new funding and plans and issues affecting specific regions of the State. However, no new budget information papers will be introduced.*

A section in the *2011-12 Budget Overview* and a section in the introduction of Budget Paper No.3 (*2011-12 Service Delivery*) provide details of various initiatives released in the Budget for regional and country Victoria.<sup>89</sup> However, as noted in Sections 3.2.1 and 3.2.5 above, the 2011-12 budget papers have not included certain disclosures about the geographic distribution of funding that were provided in previous budget papers. Overall, the Committee considers that disclosure on this matter has been reduced in the 2011-12 Budget.

Certain key aspects of the Committee's previous recommendations are not included in the 2011-12 budget papers. Specifically, the Committee considers that the budget papers lack:

- any differentiation between the specific regions of Victoria (currently, information is only provided for regional and country Victoria as a whole); and
- linkage between new initiatives and the key issues affecting specific regions.

In addition, there is no differentiation between funding going to regional cities and funding going to rural communities. Whilst the Committee understands that services and assets in regional cities are often used by people in rural communities, the Committee notes that the Government has specified that its commitment '*includes Victoria's key regional centres, but also places a renewed focus on smaller rural communities across the State.*'<sup>90</sup> This approach is also suggested by the introduction of the new ministerial portfolio of 'Regional Cities' following the Government's election. Given this stated focus by the Government, the

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86 Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates – Part Three*, September 2010, Recommendations 21-22, pp.121, 127

87 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.10

88 *ibid.*

89 Victorian Budget, *2011-12 Budget Overview*, May 2011, pp.14-15; Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.5

90 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.5

Committee considers that disclosing the amount of funding going specifically to programs and projects in regional cities as opposed to rural areas would enhance transparency.

The Committee recognises that it is not always straight-forward to differentiate funding according to whether it is aimed at metropolitan Melbourne, regional cities or rural Victoria. So far as possible, however, the Committee considers that categorising budget initiatives in this way is important for transparency. The Committee notes the inclusion in previous budget papers of a general category of initiatives for regional Victoria as a whole. This catered for those initiatives that were not able to be broken down into specific districts.

**Recommendation 10: Future budget papers provide detail about the geographic distribution of new initiatives, including:**

- (a) detailing the major initiatives and total funding for each specific region of Victoria (including metropolitan Melbourne);**
- (b) linking those initiatives to the key issues affecting each region; and**
- (c) differentiating funding for regional cities from funding for rural Victoria.**

### **3.3.2 The 2010-11 Pre-Election Budget Update**

In most financial years, a Budget Update is released in November providing an update of matters such as the Government's economic and fiscal strategies, the economic conditions influencing the Budget, the budget outlook and the estimated financial statements. The Budget Update also announces new output, asset and revenue initiatives. These initiatives are then generally also included in Budget Paper No.3 of the next year, so that a reader wanting to know what is new since the previous budget need only consult one source.

Because of the November 2010 election, two budget updates were released in 2010-11. A *Pre-Election Budget Update* was released in November 2010 and the *2010-11 Victorian Budget Update* was released in December 2010, following the election and change of government. The *Pre-Election Budget Update* contained a substantial number of new initiatives, with \$2,683.4 million (over four years) worth of output initiatives, asset initiatives with a total estimated investment of \$496.6 million and revenue initiatives with a net impact of \$146.8 million over four years.<sup>91</sup>

The asset initiatives from the *Pre-Election Budget Update* are listed in Budget Paper No.4 (*2011-12 State Capital Program*) as new projects. However, the output, asset and revenue initiatives are not listed in Budget Paper No.3 (*2011-12 Service Delivery*) as new initiatives. In fact, the only references to these initiatives in Budget Paper No.3 appears in a number of explanations from the Department of Planning and Community Development as to why output costs in 2010-11 were expected to be higher than was estimated in the 2010-11 Budget.<sup>92</sup>

91 Department of Treasury and Finance, *Pre-Election Budget Update*, November 2010, Appendix A

92 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.261, 265, 268

The Committee understands that there may be good reasons for which the initiatives from the *Pre-Election Budget Update* were not included in Budget Paper No.3. For example, the Government may have thought it necessary to clearly differentiate its own initiatives from those of the previous government.

However, the Committee considers that the budget papers are inadequate in that they do not clearly explain that readers wanting to get a full picture of initiatives released since the 2010-11 Budget should consult the *Pre-Election Budget Update*. An explanation would also have been particularly helpful given that the initiatives are listed as new in Budget Paper No.4 but not in Budget Paper No.3. This could easily cause some confusion. The Committee is also disappointed that no reference was made to these initiatives, given that they were of considerable size and therefore have had a substantial impact on the budget year and forward estimates.

### **3.4 The budget papers and international better practice**

To complement the issues identified by the Committee in this and other chapters of this report, the Committee has also examined the budget papers against some of criteria for better practice issued by the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF). Based on these international better practice principles, the Committee presents:

- a broad framework for budgetary transparency (see Table 3.3); and
- an assessment of the 2011-12 budget papers against better practices for budgetary transparency (see Table 3.4).

The framework used by the Committee does not include all of the criteria set out by the OECD and IMF. Items selectively chosen for inclusion in the framework are restricted to those that relate to the annual budget papers, rather than also including quarterly and end-of-year financial reports, pre-election budgets and budget updates. In addition, disclosures relating to balance sheet items such as non-financial assets and contingent liabilities have not been included because they are governed by local reporting requirements. Criteria relating to the timing of the Budget have also not been included. Where both the OECD and IMF have included very similar criteria, these have only been included once.

**Table 3.3: Broad framework for budget transparency based on international better practice**

| Key themes                                   | Key elements  |
|--|---|
| Budget disclosures (OECD)                    | Revenue and expenditure   |
|  | Economic assumptions  |
| Integrity, control and accountability (OECD) | Accounting policies   |
|  | Systems and responsibility  |
|  | Public and parliamentary scrutiny   |
| Open budget process (IMF)                    | Macroeconomic and fiscal policy objectives  |
| Public availability of information (IMF)     | Information on past, current and projected fiscal activity and on major financial risks |
|  | Fiscal information facilitates policy analysis and promotes accountability              |
| Assurances of integrity (IMF)                | Independent external scrutiny of fiscal information                                     |

Sources: compiled by the Committee from:

*Organisation for Economic Cooperation and Development, 'OECD Best Practices for Budget Transparency', OECD Journal on Budgeting <[www.oecd.org/gov/budget/journal](http://www.oecd.org/gov/budget/journal)>, 2002, Vol. 1 No.3, pp.7-14;*

*International Monetary Fund, 'Code of Good Practices on Fiscal Transparency (2007)' <[www.imf.org/external/np/fad/trans/code.htm](http://www.imf.org/external/np/fad/trans/code.htm)>, accessed 30 August 2011*

Table 3.4 outlines an assessment by the Committee of the disclosure in the budget papers against a break-down of the key elements in Table 3.3. As can be seen from the analysis, in applying these 25 criteria, Victoria meets 16 criteria and partially meets 8. In one case, the Committee could not form a view, as the criterion relates to internal processes within the Government about which the Committee does not have information. There were no criteria which the Government failed to meet. The Government may wish to give consideration to those better practice criteria that it only partially meets.

**Recommendation 11: The Government consider modifying future budget papers to meet those criteria set out in Table 3.4 that it currently only partially meets.**



**Table 3.4 Assessment of disclosure in budget papers against certain international better practice principles for budget transparency**

| <b>Key elements</b>  | <b>Criterion based on international better practice principles</b>   | <b>Criterion met</b> | <b>Criterion not met</b> | <b>Criterion partially met</b> | <b>Committee comment</b>   |
|--|--|----------------------|--------------------------|--------------------------------|--|
| <b>Organisation for Economic Cooperation and Development</b> |  |                      |                          |                                |  |
| <b>Revenue and expenditure</b>                               | The budget, or related documents, should include a detailed commentary on each revenue and expense program.  | ✓                    |                          | ✓                              | The budget papers disclose comments relating to revenue and expense items. The Budget is not, however, developed on a program basis.   |
|  | Non-financial performance data, including performance targets, should be presented for expenditure programs where practicable  | ✓                    |                          |                                | Due to different reporting regimes, expenditure estimates for Victoria are not presented on a program basis. However, estimated costs and non-financial performance data, including performance targets, are reported according to outputs. The Committee considers this to be equivalent. |
|  | The budget should include a medium-term perspective illustrating how revenue and expenditure will develop during, at least, the two years beyond the next fiscal year. Similarly, the current budget proposal should be reconciled with forecasts contained in earlier fiscal reports for the same period; all significant deviations should be explained. | ✓                    |                          |                                |  |

| Key elements                   | Criterion based on international better practice principles  | Criterion met | Criterion not met | Criterion partially met | Committee comment  |
|--------------------------------|--|---------------|-------------------|-------------------------|--|
| <b>Revenue and expenditure</b> | Comparative information on actual revenue and expenditure during the past year and an updated forecast for the current year should be provided for each program. Similar comparative information should be shown for any non-financial performance data. | ✓             |                   |                         | Due to different reporting regimes, income and expenditure estimates for Victoria are not presented on a program basis, but rather according to conventional revenue and expense classifications. On a departmental basis, income and expense comparisons are made with the revised estimates for the year prior to the budget year and the actual results for the year before that. Similar comparisons with regard to financial and non-financial performance data are also made for each output. The Committee considers this to be equivalent.               |
|                                | If revenue and expenditures are authorised in permanent legislation, the amounts of such revenue and expenditures should nonetheless be shown in the budget for information purposes along with other revenue and expenditure.                           |               |                   | ✓                       | Revenue raisings and expenditure items that are authorised according to legislation are included but are not specifically grouped and shown separately in the budget papers from other items of revenue and expenditure.   |
| <b>Revenue and expenditure</b> | Expenditures should be classified by administrative unit (e.g. ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.  |               |                   | ✓                       | Expenditures are classified according to department as well as on a whole-of-government basis. A break-down according to economic (e.g. employee expenses, interest expense and capital items) and functional categories (expenses according to government purpose) is provided in the budget papers. To enhance accountability and decision making, there is scope for providing a greater breakdown of functions for the larger categories of education (e.g. into primary, secondary and tertiary) and health (e.g. into hospitals and other key components). |

| Key elements                | Criterion based on international better practice principles   | Criterion met | Criterion not met | Criterion partially met | Committee comment  |
|-----------------------------|---|---------------|-------------------|-------------------------|--|
| <b>Economic assumptions</b> | Deviations from the forecast of the key economic assumptions underlying the budget are the Government's key fiscal risk. All key economic assumptions should be disclosed explicitly. This includes the forecast for GDP growth, the composition of GDP growth, the rate of employment and unemployment, the current account, inflation and interest rates (monetary policy). |               |                   | ✓                       | Key economic assumptions are disclosed in the budget papers. The Victorian economic projections contained in the budget papers do not, however, include interest rate forecasts. |
|                             | A sensitivity analysis should be made of what impact changes in the key economic assumptions would have on the budget.  | ✓             |                   |                         |  |
| <b>Accounting policies</b>  | A summary of relevant accounting policies should accompany all reports. These should describe the basis of accounting applied (e.g. cash, accrual) in preparing the reports and disclose any deviations from generally accepted accounting practices.   | ✓             |                   |                         |  |
|                             | The same accounting policies should be used for all fiscal reports.   | ✓             |                   |                         |  |
|                             | If a change in accounting is required, then the nature of the change and the reasons for the change should be fully disclosed. Information for previous reporting periods should be adjusted, as practicable, to allow comparisons to be made between reporting periods.  | ✓             |                   |                         |  |

| Key elements                                      | Criterion based on international better practice principles  | Criterion met | Criterion not met | Criterion partially met | Committee comment  |
|---|--|---------------|-------------------|-------------------------|--|
| <b>Systems and responsibilities</b>               | <p>A dynamic system of internal financial controls, including internal audit, should be in place to assure the integrity of information provided in the reports.</p> <p>Each report should contain a statement of responsibility by the Finance Minister and the senior official responsible for producing the report. The Minister certifies that all government decisions with a fiscal impact have been included in the report. The senior official certifies that the Finance Ministry has used the best professional judgement in producing the report.</p> |               |                   | ✓                       | <p>Information on this matter is not available to the Committee and the Committee anticipates the Department of Treasury and Finance providing further information.</p> <p>The estimated financial statements are certified by the Secretary of the Department of Treasury and Finance. The Finance Minister does not produce a statement of responsibility.</p> |
| <b>Public and parliamentary scrutiny</b>          | <p>Parliament should have the opportunity and the resources to effectively examine any fiscal report that it deems necessary.</p> <p>All fiscal reports referred to in these Best Practices should be made publicly available. This includes the availability of reports free of charge on the Internet.</p>   | ✓             |                   |                         |  |
| <b>International Monetary Fund</b>                |  |               |                   |                         |  |
| <b>Macroeconomic and fiscal policy objectives</b> | <p>A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. Estimates should also be provided of their current and future budgetary impact and their broader economic implications.</p>   |               |                   | ✓                       | <p>Expenditure and revenue allocations are linked to objectives. However, as detailed above in this chapter, the Committee considers that there is scope for improvement in linking expenditure to policy objectives as additional formal policies are released by the Government.</p>   |

| Key elements   | Criterion based on international better practice principles  | Criterion met | Criterion not met | Criterion partially met | Committee comment  |
|--|--|---------------|-------------------|-------------------------|--|
|  | The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.                           | ✓             |                   |                         |  |
| <b>Information on past, current and projected fiscal activity and on major financial risks</b> | Information comparable to that in the annual budget should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the budget. | ✓             |                   |                         |  |
|  | Statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.    | ✓             |                   |                         | The budget describes the nature and fiscal significance of tax expenditures and contingent liabilities. Short-term risks and medium-term challenges are discussed in the budget papers. However, statements of risk could be expanded by providing commentary in the departmental output statements in conjunction with each mission statement, objectives and priorities. |
| <b>Fiscal information facilitates policy analysis and promotes accountability</b>              | A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.  |               |                   | ✓                       | While summary information about the budget is provided in the Treasurer's speech, the Victorian Budget Overview and the Introduction to each budget paper, this could be enhanced by a flyer that sets out a simple outline of the key elements of the Budget in a consolidated form.  |

| Key elements   | Criterion based on international better practice principles   | Criterion met | Criterion not met | Criterion partially met | Committee comment  |
|--|---|---------------|-------------------|-------------------------|--|
|  | Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.   | ✓             |                   |                         | Due to different reporting regimes, Victoria's budget is not administered on a program basis. However results against departmental objectives are reported to Parliament in annual reports. The Committee considers this to be equivalent.                                     |
| <b>Independent external scrutiny of fiscal information</b> | Public finances and policies should be subject to scrutiny by a national audit body or an equivalent organization that is independent of the executive.   | ✓             |                   |                         | Aspects relating to public finances are subject to review by the credit rating agencies, the Victorian Auditor-General and the current Independent Review of the State Finances.   |
|  | The national audit body or equivalent organization should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions. | ✓             |                   |                         |  |
|  | Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.  | ✓             |                   |                         |  |
|  | A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.  |               |                   | ✓                       | The Government Finance Statistics information included in the estimated financial statements is based on the Government Finance Statistics manual published by the Australian Bureau of Statistics. The quality of fiscal data is not verified by a national statistical body. |

Source: criteria compiled by the Committee from:

Organisation for Economic Cooperation and Development, 'OECD Best Practices for Budget Transparency', OECD Journal on Budgeting <[www.oecd.org/gov/budget/journal/](http://www.oecd.org/gov/budget/journal/)> 2002, Vol. 1 No.3, pp. 7-14;

International Monetary Fund, 'Code of Good Practices on Fiscal Transparency (2007)' <[www.imf.org/external/np/fad/trans/code.htm](http://www.imf.org/external/np/fad/trans/code.htm)>, accessed 30 August 2011  
assessments have been made by the Committee

### 3.5 The cost of developing the Budget

As part of its inquiry, the Committee was interested in the cost of developing the Budget. The Committee recognises that the total cost includes both the cost of individual departments developing their inputs and a cost for the Department of Treasury and Finance in developing the Budget and producing the budget papers.

As part of its budget estimates questionnaire, the Committee sought details from the Department of Treasury and Finance and the other departments. The Department of Treasury and Finance explained:<sup>75</sup>

*The department does not estimate the cost of the development, preparation and publication of the budget papers. The process of developing the State Budget is integrated into the department's annual work program and resources are allocated to meet the demands.*

The Committee similarly sought details from individual departments about the cost of their inputs into the Budget. Most departments were not able to provide estimates. As the Department of Justice explained:<sup>76</sup>

*The department does not maintain a separate cost centre nor estimate the cost of providing input into the process of developing the State budget as the activity is integrated into the administrative processes right across the department from corporate to program areas.*

*The budget process is regarded as an essential and necessary part of managing the operations of the department, which includes effective demand management for all services.*

*Over the years, the department has focused on producing strategic, good quality and highly evidenced based budget bids and business cases that meet the priorities of government. The department also has a very rigorous implementation monitoring and report back program to ensure the initiatives are implemented on time and within budget.*

*As such, it is difficult to quantify or estimate the cost of work undertaken as part of the preparation of the budget as a stand-alone activity, i.e. it is difficult to distinguish budget specific activity from planning and general administrative activity. As such, any estimate would be unreliable for comparative purposes. The department would require very specific guidelines on how an estimate should be formed.*

Two departments did supply estimates, which they noted were approximate and only included the work by the budget team directly leading up to the Budget and not other areas of the departments that may contribute. The Department of Primary Industries estimated that the

75 Department of Treasury and Finance, response to the Committee's 2011-12 budget estimates questionnaire – part A, received 28 April 2011, p.5

76 Department of Justice, response to the Committee's 2011-12 budget estimates questionnaire – part A, received 28 April 2011, p.8

budget preparation activities of its Budget Strategy team had cost around \$100,000.<sup>77</sup> The Department of Sustainability and Environment estimated the cost for its team at \$116,894.<sup>78</sup>

The Committee also sought details of any consultants employed in the preparation of material for the Budget. Most departments indicated that they had not employed any consultants directly for this purpose. Four departments, though, did engage consultants at the following costs:<sup>79</sup>

- Department of Education and Early Childhood Development – \$43,197;
- Department of Premier and Cabinet – \$646,000 (though the Department noted that \$554,000 of this was incurred in 2009-10 for items considered in the 2011-12 Budget);
- Department of Primary Industries – \$6,000; and
- Department of Sustainability and Environment – \$85,972.

The paucity of data makes it impossible for the Committee to draw any conclusions about the overall cost of developing the State Budget. The Committee notes the Department of Treasury and Finance's comments that work on the Budget is integrated into the Department's work program rather than being a stand-alone project. The Committee also notes the Department's comment that '*The major cost of developing and preparing the budget papers is employee expenses. This cost is necessarily incurred to ensure sound financial analysis to meet the State's financial reporting obligation.*'<sup>80</sup> However, the Committee considers that the lack of information about this area may make it difficult for the Department to ascertain whether or not it is getting value-for-money and to identify whether or not any efficiencies would be appropriate.

**Recommendation 12:            The Department of Treasury and Finance develop and implement processes for identifying the cost of producing the budget papers in future years.**

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77 Department of Primary Industries, response to the Committee's 2011-12 budget estimates questionnaire – part A, received 28 April 2011, p.7

78 Department of Sustainability and Environment, response to the Committee's 2011-12 budget estimates questionnaire – part A, received 29 April 2011, p.5

79 departmental responses to the Committee's 2011-12 budget estimates questionnaire – part A, question 2.1(d)

80 Department of Treasury and Finance, response to the Committee's 2011-12 budget estimates questionnaire – part A, received 28 April 2011, p.5

## CHAPTER 4: GENERAL GOVERNMENT SECTOR OUTPUT INITIATIVES

### Chapter overview:

- 4.1 The 2011-12 Budget provides for 359 new output initiatives (including 196 identified as election commitments), with a total funding for these initiatives of \$7.1 billion for expenditure between 2010-11 and 2014-15. Of this funding, \$1.9 billion is to be spent in 2011-12 and an average of \$1.7 billion between 2012-13 and 2014-15.
- 4.2 The net impact of these new output initiatives (after accounting for the reprioritisation and adjustment of resources, new savings initiatives and the release of contingency provisions) is expected to be an additional expenditure of \$464.8 million in 2011-12. The expenditure on initiatives released in the 2011-12 Budget in 2012-13 to 2014-15 is expected to be more than offset by funds from these sources.
- 4.3 In 2011-12, the Government anticipates spending a total of \$42.1 billion delivering outputs. This includes the \$1.9 billion of new initiatives released in the 2011-12 Budget, along with approximately \$3.7 billion of funding for initiatives released in previous budgets and approximately \$36.5 billion of base funding or ongoing funding provided to departments.
- 4.4 In 2011-12, as in past years, funding associated with new initiatives released in the Budget represents a small proportion of the total expenditure on outputs for the year for most departments. However, large initiatives in the Department of Planning and Community Development and Department of Treasury and Finance mean that new initiatives in the 2011-12 Budget constitute much higher proportions of the total funding for outputs in those departments.
- 4.5 The total value of funding for new output initiatives varies substantially from one budget to another. The total value of initiatives released in the 2011-12 Budget is one of the highest of recent years, due in large part to the Government's election commitments.
- 4.6 The funding for new output initiatives is distributed across the government departments, with five departments getting significantly larger amounts of funding for new initiatives than in previous budgets. There has been a sharp reduction in the amount of funding for government-wide initiatives (initiatives involving more than one department) in 2011-12 compared to previous budgets.
- 4.7 Around \$5.4 billion (76 per cent) of the funding for new output initiatives in the 2011-12 Budget is allocated to five departments – the Department of Health, Department of Education and Early Childhood Development, Department of Human Services, Department of Planning and Community Development and Department of Justice.
- 4.8 The largest new output initiative in the 2011-12 Budget is *Hospital Operations Growth Funding*, which provides an additional \$1.1 billion over five years to maintain and expand hospital activity, including 100 new beds.

- 4.9** In the child protection and family services area, the *Better, More Transparent Services* initiative provides \$203.6 million over five years for several programs, including the establishment of an independent children’s commissioner and a pilot of new case management processes. The Budget also provides \$19.5 million over four years for additional child protection staff.
- 4.10** The Government has identified tackling crime as one of its key commitments. The Budget provides \$212.3 million over four years to employ 940 protective service officers to patrol railway stations and an additional \$46.8 million over four years to deploy an additional 1,700 police by November 2014.
- 4.11** The Budget has also established the *Regional Growth Fund* with \$125.0 million of funding provided each year for the next four years. This fund will enable grants to local government and non-government organisations in regional Victoria. Its long-term goals are a prosperous and thriving regional Victoria with more opportunities and an improved quality of life for regional Victorians.
- 4.12** The 2011-12 Budget provides \$329.0 million for government-wide initiatives. These are entirely focused on flood response and recovery operations. Over 90 per cent of this funding has either already been expended in 2010-11 or will be spent in 2011-12.
- 4.13** The Government has introduced \$2.2 billion of savings initiatives (over five years) in the Budget, spread across the departments. This is by far the largest savings program of recent budgets.
- 4.14** The basis on which the savings targets were developed has not been made public by the Government. The Committee has identified some inconsistencies between the Government’s targets and data supplied by departments.
- 4.15** There are a number of initiatives in 2011-12 for which the funding is expected to decline in real terms (after accounting for inflation) over the forward estimates period. The Committee is unclear about whether the Government intends departments to achieve efficiencies in these areas or to reduce services.
- 4.16** Overall, the Committee has identified a number of areas where there is scope to improve the presentation and disclosure of new output initiatives in the budget papers and has made recommendations accordingly.

## **4.1 Introduction**

Each year, the Budget provides details of two categories of programs and projects:

- output initiatives, for the delivery of goods and services to be funded by the Government and delivered by departments; and
- asset initiatives, which contribute to the State’s infrastructure asset base.

This chapter provides analysis and comment on general government sector output initiatives. The Committee’s analysis and commentary on asset initiatives is provided in Chapter 5 of this report.

Departments' funding for outputs in any one year comes from a variety of sources:

- new initiatives released in that year's budget;
- initiatives released in previous years' budgets; and
- 'base funding' for ongoing service delivery requirements.

As in previous budgets, the new output initiatives released in the 2011-12 Budget are detailed in Budget Paper No.3 (*2011-12 Service Delivery*). These initiatives encompass funding for part or all of 2011-12 and the forward estimates period of 2012-13 to 2014-15. Details of funding for expenditure in 2010-11 which was allocated after the release of the 2010-11 Pre-Election Budget Update are also included.

The 2011-12 Budget allocates a total funding of \$7.1 billion over the five years from 2010-11 to 2014-15 for 359 new output initiatives (including 196 identified as election commitments).<sup>81</sup> This consists of \$241.8 million for expenditure in 2010-11, \$1.9 billion for expenditure in 2011-12 and an average expenditure on new output initiatives of \$1.7 billion per year between 2012-13 and 2014-15.<sup>82</sup>

New output initiatives in the 2011-12 Budget include election commitments made in the Government's 2010 election campaign, and other initiatives to meet current and future service needs. A number of initiatives are continuations of previously budgeted programs for which funding was not previously provided for 2011-12. The budget also includes savings initiatives designed to reduce costs in a variety of areas.

Major new output initiatives announced in this year's budget include:<sup>83</sup>

- *Hospital Operations Growth Funding*, including new hospital beds (\$1,069.7 million over four years);
- establishing the *Regional Growth Fund* (\$500.0 million over four years);
- *Annual Electricity Concessions* to pensioners and other beneficiaries (\$381.6 million over five years); and
- *Fair Funding for Non-Government Schools* (\$239.5 million over five years).

In most cases, initiatives are allocated to a particular department, but 37 of the initiatives (totalling \$329.0 million over the five years to 2014-15) are classified as 'government-wide' initiatives, as they are allocated to more than one department. Of that \$329.0 million, \$108.4 million was allocated for expenditure in 2010-11, while \$190.5 million will be spent in 2011-12.<sup>84</sup> All of the government-wide initiatives released in the 2011-12 Budget were in response to flooding.

81 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, Chapters 1 and 2

82 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.30; Budget Paper No.3, *2011-12 Service Delivery*, May 2011, Chapter 2

83 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.18, 47, 61, 112

84 *ibid.*, pp.94-5

The Government anticipates that the net impact of the \$1.9 billion of expenditure on new initiatives in 2011-12 will be an additional expenditure of \$464.8 million after taking into account funding released from other sources. These sources include the reprioritisation and adjustment of resources (\$184.2 million), new savings initiatives released in this budget (\$474.5 million) and the release of funding from demand and other contingencies (\$755.8 million).<sup>85</sup>

For each year of the three-year forward estimates period to 2014-15, the additional funding released from other sources is expected to more than offset the additional budgeted expenditure on output initiatives released in the 2011-12 Budget. For example, in 2014-15 the Government expects to release \$165.5 million more than the cost of the 2011-12 Budget initiatives in that year.<sup>86</sup>

The Committee notes that these predicted ‘positive’ budget outcomes over the forward estimates are dependent on the achievement by departments of the expected savings targets and on the Government not needing to draw on the amounts allocated from the contingency provisions for other reasons. This underscores the recommendations made by the Committee in Part One of this report regarding the importance of detailing savings achievements and draw downs from contingencies in the annual financial report for the State.<sup>87</sup>

## **4.2 New output initiatives relative to total departmental output funding**

In 2011-12, a total of \$42.1 billion will be spent by the general government sector on delivering outputs. This amount represents ‘*the aggregate of goods or services which are either produced or delivered by, or on behalf of, a department or its agencies.*’<sup>88</sup> As noted above, the funding for outputs comes from a variety of sources. The sources of funding in 2011-12 are broken down in Figure 4.1.

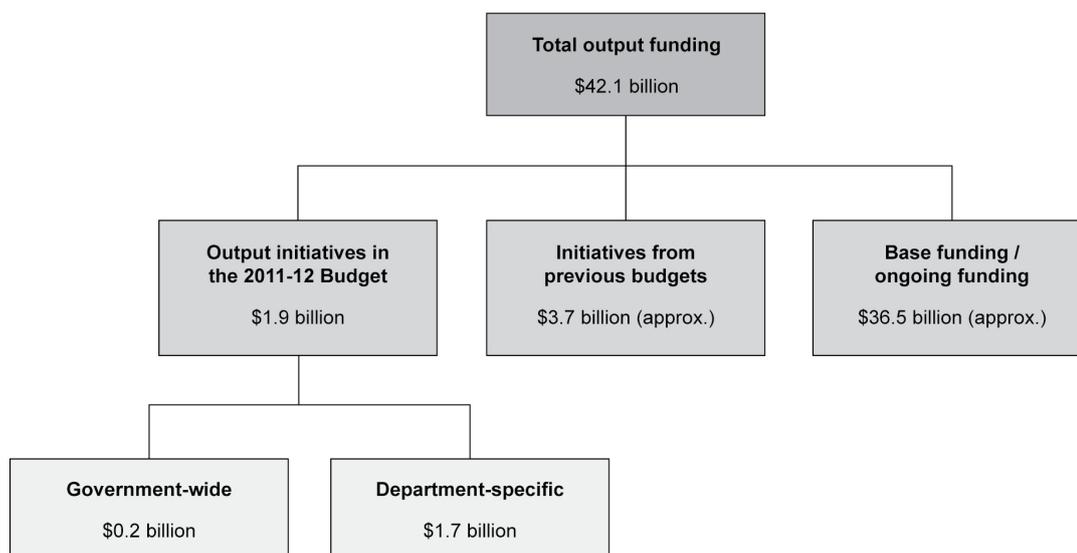
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85 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.30

86 *ibid.*

87 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, Recommendations 4 and 9, pp.21 and 31

88 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.149

**Figure 4.1 Break-down of general government sector total output funding for 2011-12**

*Note:* government-wide initiatives are initiatives for which funding is provided to more than one department; in the 2011-12 Budget, government-wide funding was provided solely for flood response initiatives

*Sources:* figure prepared by the Committee based on the following:

the 'total output funding' is an aggregate of each department's total output cost as detailed in Budget Paper No.3, 2011-12 Service Delivery, May 2011, Chapter 3;

figures for 'output initiatives in the 2011-12 Budget' are derived from Budget Paper No.3, 2011-12 Service Delivery, May 2011, Chapters 1 and 2, and are gross of efficiencies and savings initiatives released in budgets;

the figure for 'initiatives from previous budgets' is based on funding allocated for expenditure in 2011-12 on initiatives released in the 2008-09 to 2010-11 Budgets (Budget Paper No.3, Appendix A) and the 2010-11 Pre-Election Budget Update, November 2010 (Appendix A), less 'funding from reprioritisation and adjustments' in Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.30; this figure is gross of efficiencies and savings initiatives released in budgets; this figure is approximate, as some data quantifying reprioritisations in previous budgets (including changes to the timing of expenditure) may not be available; any initiatives providing ongoing funding released in the 2008-09 to 2011-12 Budgets or the 2010-11 Pre-Election Budget Update have been included in this figure and not in 'base funding';

the amount of 'base funding / ongoing funding' has been determined by subtracting the 'output initiatives in the 2011-12 Budget' and 'initiatives from previous budgets' from the 'total output funding'; it is approximate inasmuch as the other figures are approximate

The Committee notes that some of the numbers in Figure 4.1 had to be approximated, as the relevant data were not readily available. However, the Committee considers that such a break-down is important for properly understanding the expenditure in a budget and recommends that one be included in future budgets.

**Recommendation 13:** In addition to quantifying the funding provided for new initiatives released in that year's budget, future budget papers also indicate the expected expenditure in that year on initiatives from previous budgets and the amount of departments' base funding, and reconcile these amounts with the total expenditure on outputs.

As can be seen from Figure 4.1, the vast majority of funding for outputs across the general government sector comes from base funding or ongoing funding (approximately 87 per cent). Funding for initiatives released in previous budgets accounts for approximately 9 per cent of the total expenditure on outputs in 2011-12. The funding for new output initiatives released in the 2011-12 Budget represents a relatively small proportion of the general government expenditure on outputs (4.5 per cent). As Table 4.1 indicates, the proportion of any year's total output funding which comes from initiatives released in that year's budget has varied considerably over the last three years. The Committee notes a similar variation between budgets in terms of the total funding allocated across the forward estimates period for new initiatives. This is discussed further in Section 4.3 below.

**Table 4.1: Funding for new output initiatives as a proportion of total output funding for the general government sector**

|         | Total output funding for the year | Funding from initiatives released in previous budgets for expenditure in that year | Funding from initiatives released in that year's budget for expenditure in that year |            |
|---------|-----------------------------------|--|--|------------|
| Year    | (\$ million)                      | (\$ million)   | (\$ million)   | (per cent) |
| 2009-10 | 37,699.7                          | 2,794.7  | 2,249.5  | 6.0        |
| 2010-11 | 39,961.6                          | 3,183.7  | 1,201.5  | 3.0        |
| 2011-12 | 42,139.6                          | 3,738.6  | 1,879.2  | 4.5        |

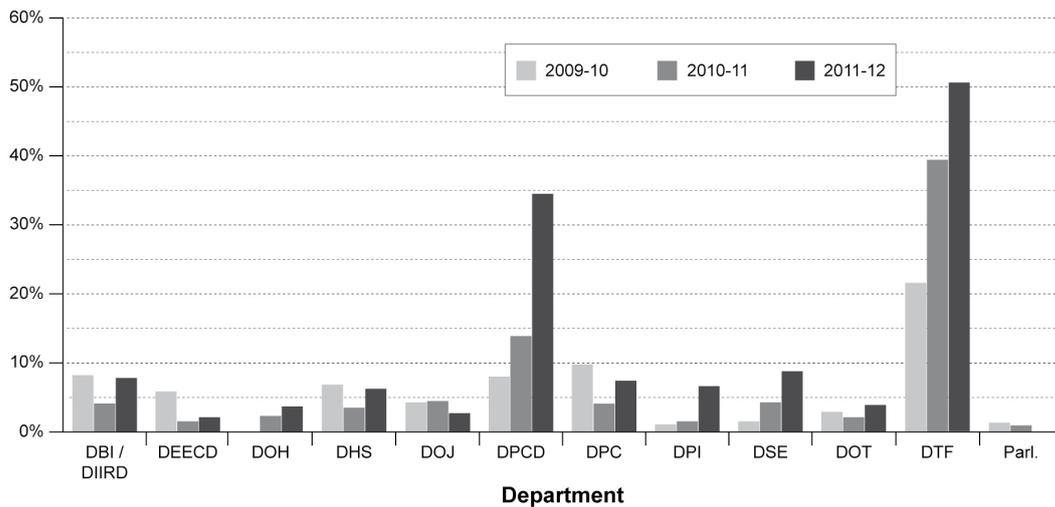
Notes: figures have been calculated using the same method as detailed for Figure 4.1;

funding detailed in budget papers for expenditure in the year prior to the budget have not been included to ensure comparability across the years

Sources: Budget Paper No.3, Service Delivery, 2009-10 – 2010-11, Chapter 3, Appendix A; Department of Treasury and Finance, Pre-Election Budget Update, November 2010, Appendix A; Budget Paper No.3, 2011-12 Service Delivery, May 2011, Chapters 1, 2 and 3

Although the proportion of funding in a particular year coming from initiatives released in that year's budget is relatively small when looking at the general government sector as a whole, this pattern is not uniform across all departments. As shown in Figure 4.2, the value of new output initiative funding released in each year's budget has been a relatively small proportion of the total estimated departmental output costs for the majority of departments. However, two departments (the Department of Planning and Community Development and Department of Treasury and Finance) have had a significantly higher proportion of their total output funding derived from new initiatives in recent budgets.

**Figure 4.2 Proportion of expenditure on outputs each year which is new initiatives released in that year's budget**



*Note:* each department's share of funding for government-wide initiatives has been included; savings initiatives released in budgets have not been included

*Sources:* proportions calculated by the Committee from data in Budget Paper No.3, Service Delivery, 2009-10 – 2010-11, Chapter 3, Appendix A; Budget Paper No.3, 2011-12 Service Delivery, Chapters 1, 2 and 3

For the Department of Treasury and Finance, the last three budgets have provided 21 per cent, 40 per cent and 51 per cent of the total output funding in each of the last three years. This has been primarily due to two particular initiatives:

- the *Efficient Technology Services* initiative (a program to deliver standardised core information communications technology across government), released in the 2009-10 Budget, with \$40.3 million of funding (14 per cent of the Department's total output funding for the year) allocated in 2009-10;<sup>89</sup> and
- initiatives related to the *First Home Bonus Scheme* – for which \$96.2 million was provided in the 2010-11 Budget for expenditure in 2010-11 (41 per cent of the Department's total output funding for the year)<sup>90</sup> and a further \$95.3 million provided in the 2011-12 Budget for expenditure in that year (40 per cent of the Department's total output funding for the year).<sup>91</sup>

The Department of Planning and Community Development's situation in 2011-12 is primarily explained by the *Regional Growth Fund*, from which \$125.0 million has been allocated in 2011-12 (22 per cent of the Department's total output funding for the year).<sup>92</sup>

As these examples show, individual initiatives can have a significant impact on a department's budget in some cases.

89 Budget Paper No.3, *2009-10 Service Delivery*, May 2009, pp.250, 366

90 Budget Paper No.3, *2010-11 Service Delivery*, May 2010, pp.245, 357 (this initiative constitutes a higher proportion of the total output funding than the total of initiatives released in that year's budget for expenditure in that year due to the presence of one initiative that reduced spending)

91 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.90, 352

92 *ibid.*, p.61

### 4.3 Trends in new output initiatives released in budgets

For the new initiatives that are released each year in the Budget, funding is provided not only for the budget year but also, where appropriate, for the following three years (the outyears) and, in some cases, for the year prior to the budget year. Thus, in addition to the \$1.9 billion released in the 2011-12 Budget for expenditure in 2011-12, \$0.2 billion was released for expenditure in 2010-11 and \$5.0 billion for expenditure between 2012-13 and 2014-15.<sup>93</sup> In total, \$7.1 billion was released in the 2011-12 Budget for expenditure over the five years to 2014-15.

#### 4.3.1 Overall trends for the general government sector

Table 4.2 compares the total number of output initiatives and the total value of funding for initiatives released in the 2011-12 Budget to the previous two budgets. The funding in this table is the total amount released in each year's budget for expenditure in the budget year, the outyears and the previous year (i.e. five-year totals).

**Table 4.2: Total number of new output initiatives and related funding (five-year totals) for the general government sector, 2009-10, 2010-11 and 2011-12 Budgets**

|                     | 2009-10 Budget        |                                  | 2010-11 Budget        |                                  | 2011-12 Budget        |                                  |
|---------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|
|                     | Number of initiatives | Value of funding<br>(\$ million) | Number of initiatives | Value of funding<br>(\$ million) | Number of initiatives | Value of funding<br>(\$ million) |
| Department-specific | 162                   | 5,353.6                          | 151                   | 3,509.6                          | 322                   | 6,743.0                          |
| Government-wide     | 98                    | 1,885.8                          | 106                   | 973.1                            | 37                    | 329.0                            |
| <b>Total</b>        | <b>260</b>            | <b>7,239.4</b>                   | <b>257</b>            | <b>4,482.7</b>                   | <b>359</b>            | <b>7,071.9</b>                   |

*Notes:* figures for the 'value of funding' in each year constitute funding allocated in that year's budget for expenditure in the budget year, the outyears and the year prior to the budget, and exclude savings commitments and efficiency measures; funding allocated in the 2010-11 Pre-Election Budget Update has not been included

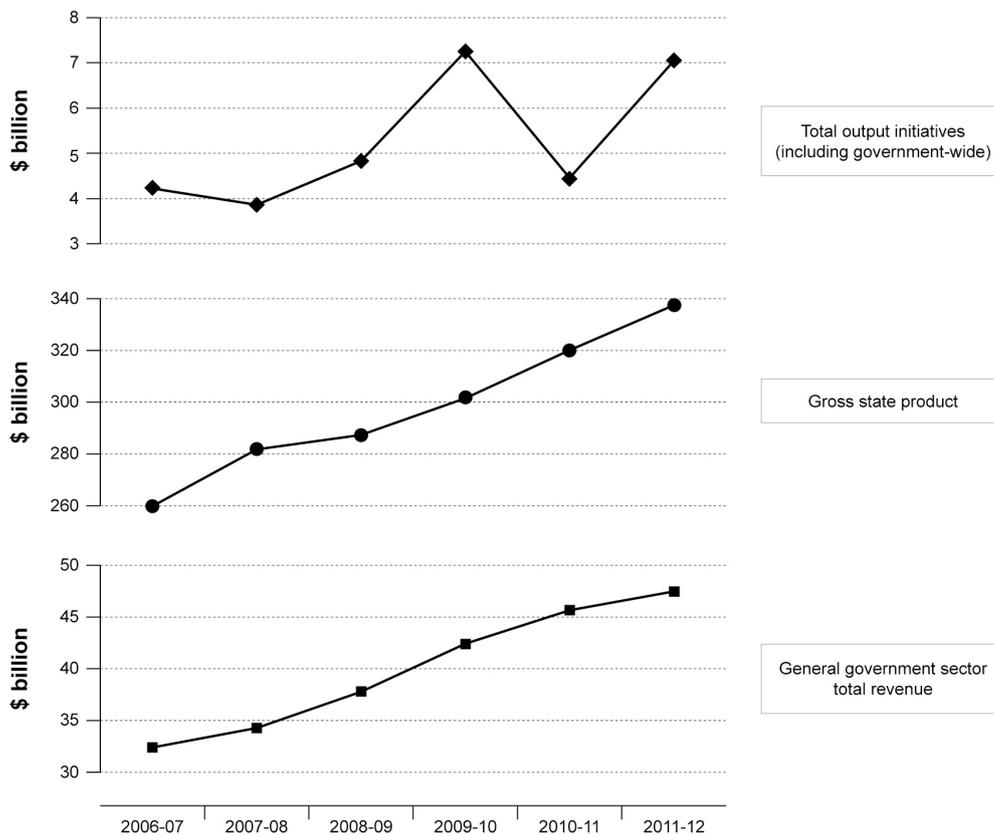
*Sources:* Budget Paper No.3, Service Delivery, 2009-10 – 2010-11, Appendix A; Budget Paper No.3, 2011-12 Service Delivery, Chapters 1 and 2

Table 4.2 shows that there is significant variation from one year to another in terms of the new initiatives released in the Budget. While the number of output initiatives was reasonably consistent between the 2009-10 and 2010-11 Budgets (260 and 257 respectively), it rose sharply to 359 in the 2011-12 Budget, an increase of around 40 per cent. However, the average amount of funding per initiative has varied considerably over this period. The average value of an initiative in the 2011-12 Budget was \$19.7 million, which is slightly more than the average value in the 2010-11 Budget (\$17.4 million), but significantly less than the 2009-10 Budget (\$27.8 million).

93 Budget Paper No.3, 2011-12 Service Delivery, May 2011, Chapters 1 and 2; Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.30

Overall, it can be seen that the total value (five-year totals) of initiatives released in each of the last three budgets has varied considerably. This variation can also be seen in Figure 4.3, which compares the value of initiatives released in each of the last six budgets. The figure also compares these amounts to two key indicators of economic activity over the same period: gross state product and the total revenue of the general government sector.

**Figure 4.3 The total value of new output initiatives (five-year totals) released in each budget relative to gross state product and general government sector revenue, 2006-07 to 2011-12**



**Notes:** figures for 'total output initiatives' in each year constitute funding allocated in that year's budget for expenditure in the budget year, the outyears and the year prior to the budget, and exclude savings commitments and efficiency measures;

funding allocated in the 2010-11 Pre-Election Budget Update has not been included

**Sources:** figure prepared by the Committee based on the following:

values for 'total output initiatives' are derived from Budget Paper No.3, Service Delivery, 2006-07 – 2011-12;

figures for 'gross state product' are the nominal gross state product figures from Department of Treasury and Finance, 'Macroeconomic Indicators – 2011-12 Budget' <[www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/MacroeconomicSeries2011-12Budget/\\$File/MacroeconomicSeries2011-12Budget.XLS](http://www.dtf.vic.gov.au/CA25713E0002EF43/WebObj/MacroeconomicSeries2011-12Budget/$File/MacroeconomicSeries2011-12Budget.XLS)>, accessed 12 August 2011;

'general government sector total revenue' figures are from Budget Paper No.2, Strategy and Outlook, 2006-07 – 2011-12

Figure 4.3 shows that, over the six budgets from 2006-07 to 2011-12, funding for new output initiatives has fluctuated widely from year to year, ranging from \$3.9 billion in 2007-08 to \$7.2 billion in 2009-10, while averaging \$5.3 billion per year. Over the same period, the trends in both the gross state product and general government sector revenue have remained steadily on an upward path, with no major fluctuations.

It can be seen from Figure 4.3 that there is little correlation between the funding made available for new output initiatives and the trends in gross state product or general government sector revenue forecasts. The figure also shows two ‘spikes’ in the amount of funding for output initiatives, occurring in the 2009-10 and 2011-12 Budgets.

The 2009-10 spike saw the total funding for new output initiatives increase by \$2.4 billion or 51 per cent over the previous year (from \$4.8 billion to \$7.2 billion). This significant increase was mainly due to major initiatives in education, social housing and health, provided as part of the Commonwealth and State Governments’ response to the global financial crisis and to both Governments’ responses to the 2009 Victorian bushfires.<sup>94</sup>

The 2011-12 spike involves a total of \$7.1 billion being provided for new output initiatives, an increase of \$2.6 billion or 58 per cent over the 2010-11 Budget (\$4.5 billion). The 2011-12 Budget is the first following the election of the new State Government in 2010, and the increased funding can be mainly attributed to the Government’s election commitments, for which \$4.4 billion (over the five years to 2014-15) has been provided in the Budget.<sup>95</sup> The major funding initiatives of this budget are discussed later in this chapter.

In conclusion, the Committee notes that a sizeable amount of funding is provided for new initiatives in each budget. The Committee also notes that there are significant variations in the amount from one year to another. However, the budget papers do not provide any comparison between the value of new initiatives released in that year’s budget and the value of new initiatives released in previous years’ budgets. The Committee considers that such a comparison, including explanations for variances, should be included in the budget papers, as this is a key element of difference from one budget to another. Providing this comparison would make the Government’s intentions in the Budget more transparent to the Parliament and the community.

**Recommendation 14: Future budget papers explain the reasons for significant changes in the total value of new output initiatives in that budget compared to previous budgets.**

### **4.3.2 Trends for particular departments**

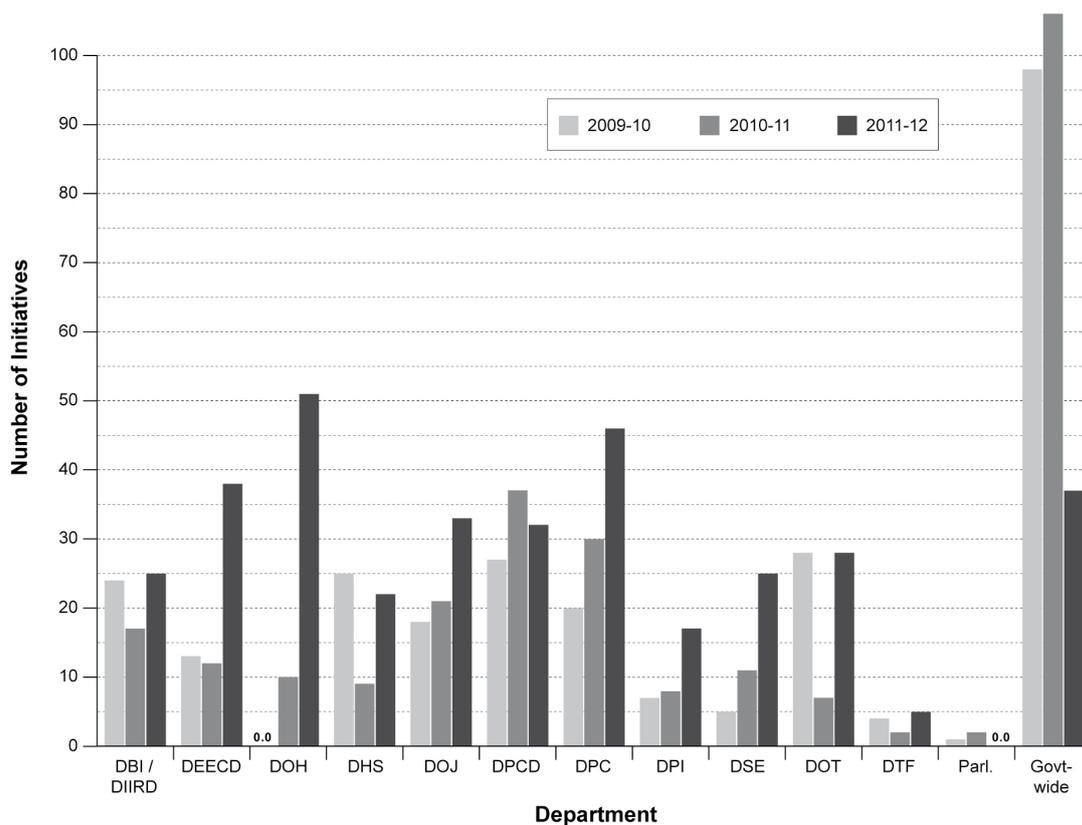
When comparing the last three budgets, there have also been changes in the way that new output initiatives are distributed to departments. Both in terms of the number of new initiatives that each department is responsible for and in terms of the value of those initiatives, there have been substantial changes from one budget to the next. In interpreting these changes, it is important to bear in mind that there was a change of government between the 2010-11 and 2011-12 Budgets. The change of government has brought with it both machinery-of-government changes (see Section 1.4 in Chapter 1) and shifts in the focus of government policy.

Figure 4.4 quantifies the number of new output initiatives released in each of the last three budgets, by department.

<sup>94</sup> Budget Paper No.3, *2009-10 Service Delivery*, May 2009, Appendix A

<sup>95</sup> Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.13

**Figure 4.4** Number of output initiatives for each department, 2009-10, 2010-11 and 2011-12 Budgets



*Notes:* as the Department of Health was created after the 2009-10 Budget, health-related initiatives in the 2009-10 Budget were allocated to the Department of Human Services; initiatives in the 2010-11 Pre-Election Budget Update have not been included

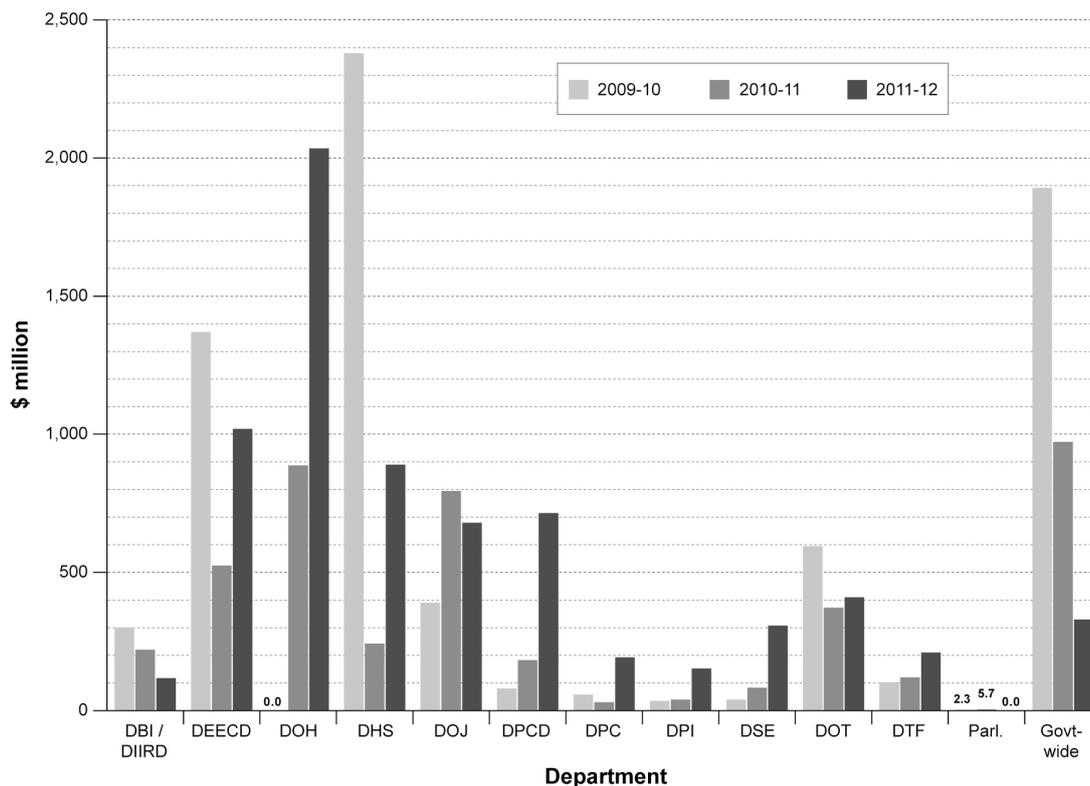
*Sources:* Budget Paper No.3, Service Delivery, 2009-10 – 2010-11, Appendix A; Budget Paper No.3, 2011-12 Service Delivery, Chapters 1 and 2

Figure 4.4 highlights that there has been a significant change in the number of government-wide initiatives in 2011-12 compared to the previous two budgets (see also Table 4.2). In the 2009-10 and 2010-11 Budgets, around 40 per cent of all output initiatives were government-wide programs. The number of government-wide initiatives reduced markedly in 2011-12, reducing from 106 in 2010-11 to 37 in 2011-12 (10 per cent of the total number of initiatives). Government-wide initiatives are discussed further in Section 4.4.5 below.

Figure 4.4 also shows that, for most departments, the number of output initiatives in 2011-12 is greater than in the previous two years. The new Government's 2010 election commitments account for the majority of this increase across departments, as they constitute 55 per cent of all output initiatives announced in the 2011-12 Budget.<sup>96</sup> However, as noted above, the average amount of funding per initiative in the 2011-12 Budget is significantly smaller than the average in the 2009-10 Budget. The increase in the number of initiatives needs to be understood in this context.

Figure 4.5 quantifies the value of new output initiatives for each department released in the 2009-10, 2010-11 and 2011-12 Budgets.

**Figure 4.5 Value of output initiatives for each department, 2009-10, 2010-11 and 2011-12 Budgets**



Notes: as the Department of Health was created after the 2009-10 Budget, health-related initiatives in the 2009-10 Budget were allocated to the Department of Human Services;

figures for the value of funding in each year constitute funding allocated in that year's budget for expenditure in the budget year, the outyears and the year prior to the budget, and exclude savings commitments and efficiency measures;

initiatives in the 2010-11 Pre-Election Budget Update have not been included

Sources: Budget Paper No.3, Service Delivery, 2009-10 – 2010-11, Appendix A;  
Budget Paper No.3, 2011-12 Service Delivery, Chapters 1 and 2

The Committee notes that the health area has received the largest share of new output initiative funding over the last three budgets. The Department of Human Services (which included responsibility for health at the time of the 2009-10 Budget) received 33 per cent of the funding for new output initiatives in the 2009-10 Budget. The Department of Health received 20 per cent of the total funding for new output initiatives in the 2010-11 Budget and 29 per cent in the 2011-12 Budget. In the 2011-12 Budget, the Department of Health received more funding for new output initiatives than any other department, receiving \$2,034.7 million over five years to fund 51 new initiatives (plus \$5.6 million of the government-wide initiatives), including hospital operations growth funding of \$1,069.7 million.<sup>97</sup>

The Department of Education and Early Childhood Development has also been allocated substantial funding for new output initiatives in each of the last three budgets. Over these budgets, the Department has been provided with an average of \$972.1 million per year. In the

2011-12 Budget, the Department has received funding for \$1,021.2 million over five years for 38 initiatives (plus \$0.3 million of the government-wide initiatives).<sup>98</sup>

The Committee observes that five departments have also received significant increases in funding for new initiatives in the 2011-12 Budget compared to funding levels in the previous two budgets (all figures below are exclusive of funding for government-wide initiatives and efficiencies and savings measures):<sup>99</sup>

- **Department of Planning and Community Development** – funding increased by \$534.8 million to \$716.8 million in 2011-12 even though the number of initiatives declined from 37 in 2010-11 to 32 in 2011-12. The substantial increase in funding can be attributed to the establishment of the *Regional Growth Fund* (\$500.0 million over four years) and a machinery-of-government change following the 2010 election that moved some responsibilities for regional Victoria from the Department of Business and Innovation to the Department of Planning and Community Development.
- **Department of Premier and Cabinet** – funding allocated in the 2011-12 Budget totals \$192.5 million, an increase of \$161.7 million over the previous year. The largest initiative contributing to this increase is funding to establish an independent broad-based anti-corruption commission (\$85.0 million over five years). The Department has also experienced a significant increase in the number of new initiatives, from 15 in 2010-11 to 46 in 2011-12. Many of these initiatives are smaller amounts allocated for multicultural affairs and arts initiatives.
- **Department of Primary Industries** – funding has increased by \$112.4 million in 2011-12 compared to the previous year, from \$40.7 million to \$153.1 million. This is mostly due to two initiatives – the *Low Emission Energy Technology Program* (\$41.0 million over four years) and the *Safer Electricity Assets Fund* (\$50.0 million over five years).
- **Department of Sustainability and Environment** – funding has increased by \$223.7 million to \$307.4 million. The increase can be attributed to a significant number of new initiatives. There were 11 in 2010-11, increasing to 25 in 2011-12. This includes a number of sizeable projects, such as funding for communities to adopt integrated water cycle management (\$50.0 million over four years), the *Parks Victoria Financial Sustainability* initiative (\$46.7 million over five years) and *Water Efficiency Rebates for Residential and Small Business Customers* (\$40.0 million over four years).
- **Department of Treasury and Finance** – funding has increased from \$121.2 million in the 2010-11 Budget to \$210.7 million in the 2011-12 Budget. The increase is primarily a result of the *Extension to the First Home Bonus Until 30 June 2012*. The total amount to be applied to this initiative over five years is \$130.1 million. The bulk of this funding is to be expended over two years – \$95.3 million in 2011-12 and \$47.0 million in 2012-13.

In contrast to these departments, the Department of Business and Innovation received just over \$100 million (46 per cent) less in new initiative funding in the 2011-12 Budget

98 *ibid.*, p.105

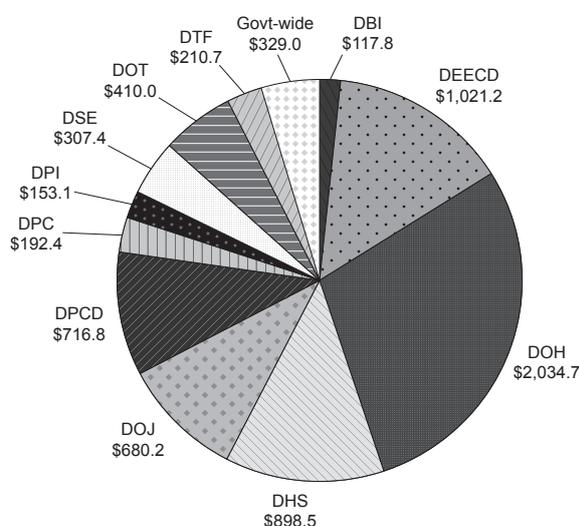
99 *ibid.*, Chapters 1 and 2

compared to the 2010-11 Budget, with \$219.6 million in 2010-11 compared to \$117.8 million of initiatives in 2011-12. This is primarily a reflection of the machinery-of-government changes following the 2010 election, which saw, among other things, the *Skills* output group transferred from the Department of Business and Innovation to the Department of Education and Early Childhood Development.<sup>100</sup> This output attracts significant expenditure both in base funding and in budget initiatives (\$157.8 million of new initiatives in the 2011-12 Budget).<sup>101</sup>

#### 4.4 New output initiatives within the 2011-12 Budget

Figure 4.6 breaks down by department the new output initiative funding committed in the 2011-12 Budget (five-year totals).

**Figure 4.6 Funding for new output initiatives released in the 2011-12 Budget (five-year totals), by department**



Note: funding amounts are in \$ million

Source: Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.30

The total output funding for initiatives over the five years to 2014-15 is \$7.1 billion. Of this amount, \$5.4 billion or 76 per cent is allocated to five departments, namely:

- Department of Health – \$2,034.7 million (\$482.4 million in 2011-12);
- Department of Education and Early Childhood Development – \$1,021.2 million (\$229.8 million in 2011-12);
- Department of Human Services – \$898.5 million (\$207.3 million in 2011-12);
- Department of Planning and Community Development – \$716.8 million (\$182.4 million in 2011-12); and
- Department of Justice – \$680.2 million (\$123.2 million in 2011-12).

100 *ibid.*, p.152

101 *ibid.*, pp.18, 105

The 2011-12 Budget also provides an amount of \$329.0 million to government-wide initiatives over five years, which includes \$108.4 million to be spent in 2010-11, mainly for maintenance funding to repair flood-damaged infrastructure.<sup>102</sup>

Table 4.3 lists the ten largest output initiatives in the 2011-12 Budget, based on the total funding allocated for expenditure in the five years to 2014-15.

**Table 4.3: The largest initiatives in the 2011-12 Budget**

| Department                                | Output Initiative   | 2010-11<br>(\$million) | 2011-12<br>(\$million) | 2012-13<br>to<br>2014-15<br>(\$million) | Total<br>(\$million) |
|---|---|------------------------|------------------------|---|----------------------|
| Health                                    | <i>Hospital Operations Growth Funding, Including 800 New Hospital Beds</i>      | –                      | 284.2                  | 785.5                                   | <b>1,069.7</b>       |
| Planning and Community Development        | <i>Regional Growth Fund</i>   | –                      | 125.0                  | 375.0                                   | <b>500.0</b>         |
| Human Services                            | <i>Annual Electricity Concessions</i>   | 30.2                   | 71.8                   | 279.6                                   | <b>381.6</b>         |
| Education and Early Childhood Development | <i>Fair Funding for Non-Government Schools</i>                                  | 56.6                   | 42.2                   | 140.7                                   | <b>239.5</b>         |
| Justice                                   | <i>940 Protective Services Officers</i>   | –                      | 9.1                    | 203.3                                   | <b>212.3</b>         |
| Human Services                            | <i>Child Protection and Family Services – Better, More Transparent Services</i> | –                      | 51.4                   | 152.2                                   | <b>203.6</b>         |
| Transport                                 | <i>Country Roads and Bridges Initiative</i>                                     | –                      | 40.0                   | 120.0                                   | <b>160.0</b>         |
| Health                                    | <i>Alcohol and Other Drug Strategy – Treatment Service</i>                      | –                      | 39.0                   | 117.0                                   | <b>156.0</b>         |
| Health                                    | <i>340 New Ambulance Officers</i>   | 6.1                    | 23.4                   | 121.6                                   | <b>151.0</b>         |
| Justice                                   | <i>Establish the Victorian Responsible Gambling Foundation</i>                  | –                      | 37.5                   | 112.5                                   | <b>150.0</b>         |

Source: Budget Paper No.3, 2011-12 Service Delivery, May 2011, Chapters 1 and 2

The Committee has comments on four of these initiatives.

#### **4.4.1 Hospital Operations Growth Funding**

The *Hospital Operations Growth Funding* initiative, which includes the delivery of the first 100 of the 800 planned new hospital beds, represents the largest output initiative contained in the 2011-12 Budget in terms of overall funding. A total amount of \$1.1 billion is allocated over five years for the delivery of this initiative, with \$284.2 million to be spent in 2011-12. The budget papers indicate that this funding will cover a wide range of activities:<sup>103</sup>

*Funding is provided to maintain and expand hospital activity including the implementation of elective surgery funding, addressing non-wage price factors, technology and innovation, and to commence the implementation of the Government's commitment to provide 800 new hospital beds in the Government's*

102 *ibid.*, pp.94-5

103 *ibid.*, p.112

*first term. The 2011-12 Budget will fund the first 100 beds ... and additional services to local communities as well as address cost pressures being faced by hospitals and provide for more complex care.*

In keeping with the wide range of services covered by the initiative, the budget papers indicate that the initiative will contribute to a number of outputs within the Department of Health:<sup>104</sup>

- admitted services;
- clinical care;
- emergency services;
- non-admitted services; and
- small rural services – acute health.

From the details of this initiative provided in the budget papers, it appears to the Committee that this initiative could have been disaggregated into a number of smaller initiatives, rather than being presented as one \$1.1 billion initiative. Grouping all of the activities covered by this initiative into one line item provides substantially less transparency than would be provided by listing the major activities separately. Disaggregating the components would have enabled readers of the budget papers to better understand how much funding has been provided for each component and the timing of the delivery of each component.

The Committee is of the view in general that, where substantial amounts of funding are provided for activities that can be meaningfully costed separately, these activities should be listed as separate initiatives in the budget papers for greater transparency and totalled at the bottom if possible.

**Recommendation 15: Future budget papers list new funded activities as separate output initiatives when substantial amounts of funding are provided and where it is possible and meaningful to cost the activity separately from other activities.**

#### **4.4.2 Child protection and family services**

A total of \$203.6 million over five years is provided in the 2011-12 Budget for the *Better, More Transparent Services* initiative within the Community Services Portfolio. This amount includes \$51.4 million for expenditure in 2011-12.<sup>105</sup>

This output initiative comprises funding for three distinct areas:<sup>106</sup>

- the appointment of an independent children's commissioner;
- a pilot of new case management processes; and

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104 *ibid.*, p.113

105 *ibid.*, p.47

106 *ibid.*, p.50

- responding to the outcomes of a pay equity case relating to the social and community services sector currently being considered by Fair Work Australia.

The Committee observes that funding for these three purposes is aggregated in the budget papers. The budget papers do not disclose the individual cost of each component even though the components are distinct and separate activities. The Committee notes this also appears to be the case with several other initiatives in the Department of Human Services, such as:<sup>107</sup>

- *Improving Access of People with a Disability, Their Families and Carers to Services* (\$92.6 million over four years, including both election commitments and other commitments), for which the budget papers list seven components; and
- *Better Outcomes for Out-of-Home Care* (\$53.6 million over four years, including both election commitments and other commitments), which has four different components.

The Committee acknowledges that it can be appropriate for related programs to be grouped together within one initiative. However, as recommended above, the Committee considers that where major initiatives can be disaggregated and distinguished, this should occur.

### ***The Better, More Transparent Services initiative***

The *Better, More Transparent Services* initiative includes funding for the appointment of an independent children's commissioner. The Commissioner will have the power to initiate reviews regarding the safety of children and report to the Parliament.

Currently in Victoria, responsibility for child safety issues rests with the Child Safety Commissioner, whose functions are detailed in the *Child Wellbeing and Safety Act 2005* (Section 19). These functions include:

- providing advice to the Minister for Community Services about child safety issues at the request of the Minister;
- promoting child-friendly and child-safe practices in the Victorian community;
- advising the Minister and the Secretary on the performance of out-of-home care services; and
- at the request of the Minister, investigating and reporting on out-of-home care services.

At the budget estimates hearing into the Community Services portfolio, the Minister acknowledged the Victorian Ombudsman's findings in his report on the Child Protection Program<sup>108</sup> that the lack of independence of the Child Safety Commissioner has restricted the effectiveness of his role.<sup>109</sup> The Minister indicated that an independent children's

107 *ibid.*, pp.47-50, 119-20

108 Ombudsman Victoria, *Own Motion Investigation into the Department of Human Services Child Protection Program*, November 2009

109 Hon. M. Wooldridge MP, Minister for Community Services, 2011-12 budget estimates hearing, transcript of evidence, 19 May 2011, p.15

commissioner will be appointed by the Governor-in-Council rather than the Minister, will have the ability to independently report to the Parliament and will have own-motion powers.<sup>110</sup>

The *Better, More Transparent Services* initiative also includes funding for a pilot of a new approach to case management across the Department of Health and Department of Human Services. In this pilot, a case manager will be allocated to individuals or families ‘*who will be the central point of contact responsible for working with them and advocating on their behalf to improve access to the services they need.*’<sup>111</sup>

### **Other child protection workforce initiatives**

In addition, the 2011-12 Budget provides \$19.5 million over four years for 47 additional child protection staff through the *Child Protection Demand* initiative.<sup>112</sup> At the budget estimates hearings, the Minister explained that:<sup>113</sup>

*In addition to the 47 new workers we are also engaging in a discussion about the restructure of the workforce more generally ... and we believe this will deliver the biggest ever increase in front-line child protection workforce staff, with about 160 more front-line staff as a result.*

The Committee notes in this context the findings of the Victorian Ombudsman in his report on the child protection program that, at 19 June 2009, at least 2,197 cases (23 per cent of all child protection cases subject to the Department of Human Services’ intervention) were not allocated to a case worker.<sup>114</sup> The report also found that some regions had a level of demand for child protection services that they could not meet even if fully staffed.<sup>115</sup> The Ombudsman concluded that the ‘*failure to allocate cases means that there are a substantial number of vulnerable children without a child protection worker to respond to their needs.*’<sup>116</sup>

At the budget estimates hearing into the Community Services portfolio, the Committee requested quantification of the targets established by the Government to reduce the number of unallocated cases within the child protection system in 2011-12 as a result of the 47 additional child protection staff provided through the *Child Protection Demand* initiative. The Minister did not provide a quantified target, but explained that:<sup>117</sup>

*The unallocated cases have been a real concern in terms of the numbers, and it has been as a direct response of not having the workforce either in place or retained to be able to deliver to those unallocated cases. Our benchmark is that we saw about 18 months ago that Gippsland children were 62 per cent unallocated. That is the height of how bad it can get in relation to unallocated cases, and we*

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110    ibid.

111    Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.50

112    ibid., pp.119-20

113    Hon. M. Wooldridge MP, Minister for Community Services, 2011-12 budget estimates hearing, transcript of evidence, 19 May 2011, p.6

114    Ombudsman Victoria, *Own Motion Investigation into the Department of Human Services Child Protection Program*, November 2009, p.9

115    ibid, p.10

116    ibid.

117    Hon. M. Wooldridge MP, Minister for Community Services, 2011-12 budget estimates hearing, transcript of evidence, 19 May 2011, pp.15-16

*certainly will be working very hard to keep that number as low as we possibly can. Numbers have come down over time. I think when the Ombudsman reported it was around 21 or 22 per cent. I think it got up to 26 per cent overall in relation to unallocated cases right across the state. We will be working hard to get that number as low as possible. The more children who have caseworkers the more likely they are to be able to get the support, the attention and the care they need at very difficult times throughout their experiences.*

*What we are also facing, though, as you would have seen from the chart with the increase in demand, is that there are more children entering the child protection system both from population growth and from knowledge of the child protection system and then entering. We have two challenges: one is to bring down the number of unallocated cases that we inherited, and the second is to do that in the context of the increasing growth of numbers of children in the system. The new workers will go part of the way to addressing that, but the reform of the child protection workforce that I talked about earlier — getting actually 160 new workers at the front line delivering services — will go even further.*

*My objectives are to keep those numbers as low as we possibly can and to make sure that the workforce that is in place is retained and has the capacity to take on appropriate workloads with the skills and expertise they need.*

Given the importance of this matter and the Government's intention to keep the number of unallocated cases as low as possible, the Committee considers that public reporting of the number is important. The Committee notes the Ombudsman's recommendation that the figure be published in the Department's annual report,<sup>118</sup> and that the Department's 2009-10 annual report provided figures for the State as a whole and for each of the various regions of Victoria.<sup>119</sup> The Committee hopes to see this reporting continue in the future, so that the effectiveness of the Government's strategy can be ascertained.

#### **4.4.3 940 protective services officers and 1,700 new frontline police**

The Government considers that one of its key commitments is to tackle rising crime.<sup>120</sup> As part of this commitment, the 2011-12 Budget provides an amount of \$212.3 million over four years to employ an additional 940 protective service officers (PSOs) to patrol metropolitan railway stations and the four major regional railway stations at Ballarat, Bendigo, Traralgon and Geelong.<sup>121</sup> The Committee notes that the majority of this funding, \$175.0 million or 82 per cent, will be spent in the budget outyears of 2013-14 (\$74.9 million) and 2014-15 (\$100.1 million).<sup>122</sup>

In addition to this initiative, the 2011-12 Budget seeks to deploy additional police sooner. Funding was provided in the 2010-11 Budget for an additional 1,700 police.<sup>123</sup> An extra

118 Ombudsman Victoria, *Own Motion Investigation into the Department of Human Services Child Protection Program*, November 2009, Recommendation 11, p.46

119 Department of Human Services, *Annual Report 2009-10*, p.34

120 Budget Paper No.1, *2011-12 Treasurer's Speech*, May 2011, p.5

121 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.54, 56

122 *ibid.*,

123 Budget Paper No.3, *2010-11 Service Delivery*, May 2010, pp.323, 325

\$46.8 million is provided in the 2011-12 Budget over four years to facilitate a shorter delivery period for this initiative, with the completion date moved from June 2015 to November 2014.<sup>124</sup>

At the budget estimates hearing into the Treasurer's portfolio, the Treasurer advised the Committee that the additional 1,700 police and the 940 PSOs would all be delivered by 14 November 2014.<sup>125</sup> In relation to the PSOs, the Committee questioned the total funding for this initiative given that the Government's pre-election commitment costing for 940 PSOs was \$181.0 million,<sup>126</sup> some \$31.3 million less than the amount provided in the 2011-12 Budget. The Treasurer advised that the difference in the costing figures is due to the Government's decision to bring forward the delivery date for this initiative from June 2015 to November 2014.<sup>127</sup>

The Committee sought clarification from the Treasurer and the Minister for Public Transport on the source of the additional funding.<sup>128</sup> Specifically, the Committee sought clarification as to whether funding had been redirected from a 2010-11 budget initiative to upgrade 20 railway stations to premium status, with additional staff and facilities.<sup>129</sup> The Committee noted that the Department of Transport identified the premium station upgrade initiative as under review<sup>130</sup> and that the asset initiative *Public Transport Premium Stations* from the 2010-11 Budget appeared to have been renamed *Public Transport Safety* in the 2011-12 Budget, with the note that the initiative 'will be influenced by rollout plans for the *Protective Services Officers initiative*'.<sup>131</sup> The Minister for Public Transport explained:<sup>132</sup>

*Our position was that we would put 940 protective services officers at those stations, and we did not commit to remain those stations. We said we would put that money where it was required, and that was to provide a safe and secure environment for people who want to use the public transport network late at night. ... our policy setting of putting 940 protective services officers on stations, and providing the infrastructure to house those officers was our commitment.*

While the Committee acknowledges the prerogative of the Government to change its budget priorities and funding allocations according to need, the Committee considers that such changes should be transparent. The Committee has made further comment on this with respect to output initiatives in Section 4.6.2 below. The Committee considers that changes to asset initiatives should also be clearly identified. Asset initiative projects currently underway that have been released in previous budgets (over certain thresholds) are listed in Budget

124 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.54, 56

125 Hon. K. Wells MP, Treasurer, 2011-12 budget estimates hearing, transcript of evidence, 6 May 2011, p.30

126 *ibid.*, p.29

127 *ibid.*, p.30

128 Hon. K. Wells MP, Treasurer, 2011-12 budget estimates hearing, transcript of evidence, 6 May 2011, pp.29-31; Hon. T. Mulder MP, Minister for Public Transport, 2011-12 budget estimates hearing, transcript of evidence, 10 May 2011, pp.8-10

129 Budget Paper No.3, *2010-11 Service Delivery*, May 2010, p.352

130 Department of Transport, response to the Committee's 2011-12 budget estimates questionnaire – part B, received 9 May 2011, p.5

131 Budget Information Paper No.1, *2010-11 Public Sector Asset Investment Program*, May 2010, p.138; Budget Paper No.4, *2011-12 State Capital Program*, May 2011, pp.103-4

132 Hon. T. Mulder MP, Minister for Public Transport, 2011-12 budget estimates hearing, transcript of evidence, 10 May 2011, p.9

Paper No.4 (2011-12 State Capital Program). However, in the interests of transparency, the Committee considers that this disclosure would be improved by clearly stating in this document where an existing project has been re-focused, as appears to have happened with the *Public Transport Premium Stations/Public Transport Safety* initiative.

**Recommendation 16: Where asset initiatives from previous budgets are re-focused so that significantly different products are being delivered, this re-focusing should be clearly stated in the budget papers.**

At the budget estimates hearing into the Police and Emergency Services portfolio, the Committee was interested to learn the break-down of the numbers of the extra police and the PSOs, and the locations at which they will be deployed over the forward estimates period. The Minister advised that the rollout of the police officers and the PSOs will occur on a graduated basis over the course of the forward estimates period, with an expected 93 new PSOs to be deployed in the first year – 2011-12.<sup>133</sup>

At this hearing, the then Chief Commissioner of Victoria Police also provided details on the estimated recruiting levels needed in order to achieve the required numbers of PSOs and additional police by November 2014. The Chief Commissioner indicated that, taking into account attrition levels, around 1,081 new recruits will be needed between 2011 and November 2014 to reach the target of 940 PSOs by November 2014.<sup>134</sup> He estimated that around 3,466 new police recruits will be needed to achieve the target number of new police by November 2014.<sup>135</sup>

The Committee was informed by the Minister that the first PSO deployments will be to the inner city and loop railway stations: Flinders Street, Southern Cross, Flagstaff, Melbourne Central, Parliament, Richmond, North Melbourne, Footscray and Clifton Hill. Subsequent PSO deployments will be to stations identified as ‘hot spots’ for crimes and public disorder on the Lilydale/Belgrave, Craigieburn, Pakenham/Cranbourne, Epping, Frankston, Sydenham and Werribee railway lines.<sup>136</sup>

For the 1,700 new police (which includes 100 transit safety police),<sup>137</sup> the Minister advised that the locations of police will be subject to determination by the Chief Commissioner.<sup>138</sup> The Committee was interested in the basis for making determinations about the location for police, PSOs and recruits in training, particularly the PSOs and the police. In response to a question on notice, the Minister advised that:<sup>139</sup>

133 Hon. P. Ryan MP, Minister for Police and Emergency Services, 2011-12 budget estimates hearing, transcript of evidence, 12 May 2011, p.17

134 Mr. S. Overland, Chief Commissioner, Victoria Police, Minister for Police and Emergency Service’s 2011-12 budget estimates hearing, transcript of evidence, 12 May 2011, p.18

135 *ibid.*

136 Hon. P. Ryan MP, Minister for Police and Emergency Services, response to a question on notice, correspondence received 27 June 2011

137 Budget Paper No.3, 2011-12 Service Delivery, May 2011, p.56

138 Hon. P. Ryan MP, Minister for Police and Emergency Services, response to a question on notice, correspondence received 27 June 2011

139 *ibid.*

*... a model was designed that applied a number of ratios to evaluate current and projected demands of police service delivery. The Police Allocation Model (PAM) for the distribution of future police numbers was included in the modelling.*

*PAM uses variables based on research that are said to generate demand such as socio economic drives and population demographics. The development of the current model is influenced by PAM but is only one indicator used.*

*The resource allocation model considers the following demand based ratios:*

- Police per population (100,000)*
- Police per population 15-30 yrs (100,000)*
- Number of Convicted and Discharged (CAD) Events per FTE (police)*
- Adjustment of police stations that have cells*
- Number of CAD events per 100,000 (population)*
- Crime against the person per 100,000 (population)*
- Crime against the person per FTE (police)*
- Crime against the property per 100,000 (population)*
- Crime against the property per FTE (sworn)*
- Number of collisions per FTE*

*The demand ratios are compared across all Police Service Areas (PSA's) to identify relative ranking and the FTE required to bring demand levels back to an equitable level.*

*Additional supervisory, investigative, and highway patrol positions have been included in the deployment profile. This is to manage supervisory ratios and the flow on impacts from 1,700 additional positions.*

*A benefit analysis and evaluation needs to be completed to ensure that the increase in sworn resources that have been deployed as part of the 30 June 2011 and 2012 deployment profile have been effective and have restored demand based levels back to an equitable parallel. In some instances this will impact future demand based rankings.*

The Committee considers that this benefit analysis and evaluation will be an important measure to ensure the effectiveness of the Government's expenditure in this area. To ensure transparency in this area, the Committee considers that the results should be published on the Department's website.

**Recommendation 17: The Department of Justice's benefit analysis and evaluation of the deployment of the additional police and protective service offices be undertaken in a timely manner and the results published on the Department's website.**

In response to the Committee's 2011-12 budget estimates questionnaire, the Department of Justice indicated that the total output cost is the only performance measure developed for the *940 Protective Service Officers* initiative.<sup>140</sup> It is the Committee's belief that the Department of Justice needs to develop suitable performance measures to assess the effectiveness of the deployment of 940 protective service officers and the additional 1,700 police in tackling rising crime.

The Committee has previously raised the issue of the lack of performance measures for crime reduction in its *Report on the 2011-12 Budget Estimates — Part Two*.<sup>141</sup> In that report, the Committee recommended the Government develop an approach for measuring the achievement of whole-of-government outcomes over time, including crime reduction. Performance measures for the additional police and PSOs need to be incorporated into this approach.

#### 4.4.4 Regional Growth Fund

A total of \$500.0 million (\$125.0 million per year for four years) has been provided for the *Regional Growth Fund* initiative.<sup>142</sup> This replaces the previous government's *Regional Infrastructure Development Fund* and incorporates the remaining funding that had been committed to that initiative.<sup>143</sup> The Government anticipates providing another \$500.0 million for this fund in the future.<sup>144</sup> The Fund is based on two long-term goals: '*developing a prosperous and thriving regional Victoria with more opportunities for regional Victorians*' and '*improving the quality of life for regional Victorians*.'<sup>145</sup> To move towards these goals, the Fund is intended to:<sup>146</sup>

- *provide better infrastructure, facilities and services;*
- *strengthen the economic, social and environmental base of communities;*
- *create new jobs and improve career opportunities;*
- *support the planning and development of projects; and*
- *leverage increased investment.*

The Department of Planning and Community Development has identified the expected benefits from the Fund as:<sup>147</sup>

140 Department of Justice, response to the Committee's 2011-12 budget estimates questionnaire — part B, received 9 May 2011, p.38

141 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Two*, June 2011, pp.48-9

142 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.61

143 *ibid.*, p.64; Mr X. Csar, Acting Deputy Secretary, Regional Development Victoria, Minister for Regional and Rural Development's 2011-12 budget estimates hearing, transcript of evidence, 12 May 2011, p.7

144 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.9

145 Regional Development Victoria, *Regional Growth Fund*, July 2011, p.4

146 *ibid.*

147 Department of Planning and Community Development, response to the Committee's 2011-12 budget estimates questionnaire – part B, received 10 May 2011, p.19

- *Victoria's regional economy is stronger*
- *Regional Victorians have more job opportunities and improved career options*
- *Regional communities are more sustainable and resilient*
- *Local communities lead development in their region*

The Fund seeks to achieve these benefits through providing grants to local government and non-government organisations in regional Victoria.<sup>148</sup> The \$500.0 million of funding is divided into two streams – a strategic stream and a local stream. The strategic stream (\$300.0 million) supports economic projects, infrastructure facilitating jobs growth and industry investment, and feasibility studies for larger strategic projects. This currently includes an *Energy for the Regions* project, a *Mildura Riverfront and Airport Development* project and a *Latrobe Valley Advantage Fund*. The local stream (\$200.0 million) is divided into \$100.0 million for local government infrastructure and \$100.0 million for projects identified as of high priority by local communities.<sup>149</sup>

The *Regional Growth Fund* represents a significant investment and it is therefore important to ensure that appropriate accountability mechanisms are in place. This is particularly the case given that this money is to be passed on through grants to a number of other organisations. The Department of Planning and Community Development in its response to the Committee's budget estimates questionnaire indicated that the following performance measures are in place for the *Regional Growth Fund* initiative:<sup>150</sup>

- Regional infrastructure projects funded;
- Economic development, service delivery and community capacity projects funded;
- Energy for the Regions Program: Number of towns included;
- Putting Locals First Fund projects recommended by Regional Development Committees approved for funding; and
- Grants acquitted within the timeframe specified in the terms and conditions of the funding agreement: Local Government Infrastructure Account.

The Committee is pleased to see that these performance measures are in place, but notes that none of these measures is related to the outcomes of this program that have been identified through the two long-term goals of the program or the four benefits identified by the Department. The Committee considers that performance measures related to the intended outcomes of the initiative should be developed and reported on to ensure greater accountability for the significant amount of funding that this initiative represents.

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148 Department of Planning and Community Development, response to the Committee's 2011-12 budget estimates questionnaire – part B, received 10 May 2011, p.19

149 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.65;  
Hon. P. Ryan MP, Minister for Regional and Rural Development, 2011-12 budget estimates hearing, transcript of evidence, 12 May 2011, p.2, presentation, slide 5

150 Department of Planning and Community Development, response to the Committee's 2011-12 budget estimates questionnaire – part B, received 10 May 2011, p.19

**Recommendation 18: The Department of Planning and Community Development develop performance measures for the *Regional Growth Fund* which measure its performance relative to the stated intended outcomes. These measures should be included in the 2012-13 budget papers and beyond.**

In addition to annual measures, the Committee notes the importance of longer-term evaluation and reporting mechanisms for projects, such as the *Regional Growth Fund*, that take place over a number of years and have long-term goals. Longer-term evaluation and reporting can be more comprehensive than measures in the budget papers and can assess projects on criteria that might be more meaningful after a longer period of time has elapsed because they show little change on an annual basis. It is noted that the governance of the fund is subject to the *Financial Management Act 1994* and that act's reporting requirements. For an initiative like the *Regional Growth Fund*, for which at least \$1.0 billion is expected to be provided, the Committee considers that it is essential that the results of longer-term evaluations be made available to the Parliament and community for scrutiny.

**Recommendation 19: Longer-term performance measures be developed to assess the effectiveness of the *Regional Growth Fund* relative to its long-term goals. The performance of the fund relative to these measures should be evaluated and publicly reported after an appropriate length of time.**

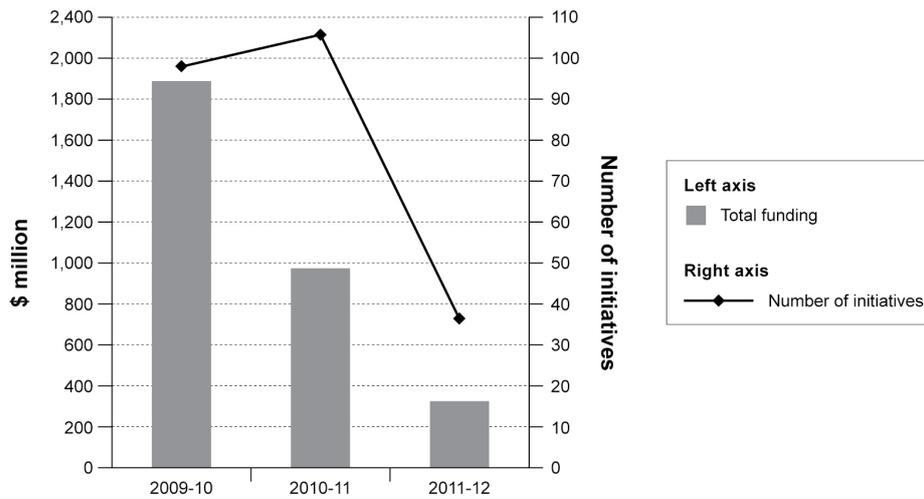
#### **4.4.5 Government-wide initiatives**

Government-wide output initiatives are initiatives which involve more than one government department. In the 2011-12 budget papers, these are listed in a table in Chapter 2 of Budget Paper No.3.<sup>151</sup> The budget paper shows the funding allocation over the five years to 2014-15, including expenditure in 2010-11 that was announced after the 2010-11 Pre-Election Budget Update.

Figure 4.7 quantifies the funding provided for government-wide initiatives in the last three budgets.

151 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.94-5

**Figure 4.7 Funding provided for government-wide output initiatives in the 2009-10, 2010-11 and 2011-12 Budgets**



*Notes:* figures for ‘total funding’ in each year constitute funding allocated in that year’s budget for expenditure in the budget year, the outyears and the year prior to the budget, and exclude savings commitments and efficiency measures;  
 initiatives in the 2010-11 Pre-Election Budget Update have not been included

*Sources:* Budget Paper No.3, Service Delivery, 2009-10 – 2010-11, Appendix A;  
 Budget Paper No.3, 2011-12 Service Delivery, Chapter 2

Figure 4.7 illustrates a significant downward trend in the level of funding allocated to government-wide initiatives over the past three budgets. The total funding for government-wide initiatives in 2009-10 was \$1,885.8 million for 98 initiatives,<sup>152</sup> reducing by 48 per cent in 2010-11 to \$973.1 million (106 initiatives),<sup>153</sup> which decreased by 66 per cent to \$329.0 million for 37 initiatives in 2011-12.<sup>154</sup>

The low level of government-wide initiatives in the 2011-12 Budget may in part be explained by the fact that the 2010-11 Pre-Election Budget Update, released between the 2010-11 and 2011-12 Budgets, provided \$1,645.1 million for 127 government-wide initiatives to take place between 2010-11 and 2013-14.<sup>155</sup> Government-wide initiatives, in fact, constitute the bulk (61 per cent) of all funding for new initiatives provided in the 2010-11 Pre-Election Budget Update.<sup>156</sup>

Between 2009-10 and 2011-12, government-wide initiatives have been developed to a large degree in response to two catastrophic climatic events – the Victorian bushfires in 2009 and the major floods which affected large areas of the State in late 2010 and early 2011 – both of which required urgent and substantial action by the Government.

152 Budget Paper No.3, 2009-10 Service Delivery, May 2009, pp.284-7

153 Budget Paper No.3, 2010-11 Service Delivery, May 2010, pp.280-3 – this includes \$1,011.1 million of additional expenditure and \$38.0 million of savings through the Drought Contribution Levy

154 Budget Paper No.3, 2011-12 Service Delivery, May 2011, pp.94-5

155 Department of Treasury and Finance, Pre-Election Budget Update, November 2010, pp.125-9

156 ibid., Appendix A

In the 2011-12 Budget, the entire amount of \$329.0 million for government-wide initiatives is provided for the Government's flood response and recovery operations.<sup>157</sup> The majority of this funding will be used to repair infrastructure assets, including \$121.5 million to repair flood damage to arterial roads, \$30.0 million for community infrastructure and \$20.4 million to repair flood damage to the regional rail network.<sup>158</sup> The Committee observes that well over 90 per cent of this funding has either already been expended in 2010-11 or will be expended in 2011-12.

Chapter 2 of this report (reproduced from the Committee's *Report on the 2011-12 Budget Estimates — Part One*) provides commentary on the Government's response to the recent floods, including matters related to natural disaster relief funding and the appropriateness of disclosures within the budget papers, such as the identification of the expected sources and applications of funding for major natural disasters and the estimated net cost to the Government. Further discussion can also be found in Chapter 9 below.

Table 4.4 breaks down the funding for government-wide initiatives by department for the last three budgets.

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157 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.94-5

158 *ibid.*

**Table 4.4: Government-wide initiatives, allocations of funding by department**

| Department   | 2009-10 Budget  | 2010-11 Budget | 2011-12 Budget | 2009-10 Budget | 2010-11 Budget | 2011-12 Budget |
|--|-----------------|----------------|----------------|----------------|----------------|----------------|
|  | (\$ million)    | (\$ million)   | (\$ million)   | (per cent)     | (per cent)     | (per cent)     |
| Business and Innovation                              | 353.8           | 30.5           | 4.7            | 18.8           | 3.1            | 1.4            |
| Education and Early Childhood Development            | 32.4            | 60.2           | 0.3            | 1.7            | 6.2            | 0.1            |
| Health   | n/a             | 71.5           | 5.6            | n/a            | 7.3            | 1.7            |
| Human Services                                       | 271.2           | 222.8          | 7.8            | 14.4           | 22.9           | 2.4            |
| Justice  | 214.9           | 219.9          | 12.6           | 11.4           | 22.6           | 3.8            |
| Planning and Community Development                   | 21.1            | 14.3           | 35.4           | 1.1            | 1.5            | 10.8           |
| Premier and Cabinet                                  | 125.7           | 55.7           | –              | 6.7            | 5.7            | –              |
| Primary Industries                                   | 67.5            | 96.6           | 15.5           | 3.6            | 9.9            | 4.7            |
| Sustainability and Environment                       | 478.0           | 168.1          | 64.5           | 25.3           | 17.3           | 19.6           |
| Transport  | 17.1            | –              | 147.9          | 0.9            | –              | 45.0           |
| Treasury and Finance                                 | 38.0            | 71.6           | 34.5           | 2.0            | 7.4            | 10.5           |
| Parliament   | –               | –              | –              | –              | –              | –              |
| Not allocated to specific departments <sup>(a)</sup> | 266.1           | -38.0          | –              | 14.1           | -3.9           | –              |
| <b>Total</b>   | <b>1,885.80</b> | <b>973.1</b>   | <b>329.0</b>   | <b>100.0</b>   | <b>100.0</b>   | <b>100.0</b>   |

Notes: (a) initiatives which are listed in the government-wide initiatives section but not in individual departments' sections;

figures for total funding in each year constitute funding allocated in that year's budget for expenditure in the budget year, the outyears and the year prior to the budget, and exclude savings commitments and efficiency measures;

initiatives in the 2010-11 Pre-Election Budget Update have not been included

Sources: Budget Paper No.3, Service Delivery, 2009-10 – 2010-11, Appendix A;  
Budget Paper No.3, 2011-12 Service Delivery, Chapter 2

The break-down of funding by departments clearly reflects the disaster-response nature of the bulk of the government-wide initiatives in the last three budgets. Thus, the Department of Sustainability and Environment has consistently received large shares over the last three budgets to cover activities such as disaster response, restoration works and repairs. In the 2009-10 and 2010-11 Budgets, the Department of Justice received large shares in response to the bushfires. In 2011-12, the Department of Transport's large component of the government-wide initiatives is primarily allocated for repairing flood-damaged infrastructure.

## 4.5 Savings initiatives

Prior to the 2010 election, the Liberal-Nationals coalition committed to a number of savings measures which are expected to save \$1.6 billion over the five years to 2014-15. This savings

agenda has been incorporated into the 2011-12 Budget under the title ‘Government election commitment savings’. Information about the program is provided at a high level in Budget Paper No.3 (*2011-12 Service Delivery*), which lists 11 components of the savings and the amount expected to be saved through each component in each of the five years.<sup>159</sup> Each department’s share of the aggregate savings of \$1.6 billion is presented in Chapter 2 of Budget Paper No.3 as a single line item deduction from the aggregate cost of new initiatives.

In the budget papers, the Treasurer referred to a number of additional challenges impacting on the Budget since the Government came to office which have required further savings measures. The Treasurer identified the following as challenges:<sup>160</sup>

- a reduction in the value of GST grants to be received by the State compared to earlier estimates (estimated at \$4.1 billion over five years);
- the deferral of \$550.0 million of Commonwealth funding for the Regional Rail Link and the Victorian Comprehensive Cancer Centre;
- cost overruns on some existing projects (estimated by the Government at \$2.0 billion); and
- substantial costs associated with the floods in late 2010 and early 2011 (\$676 million, with \$115 million likely to be recovered from insurance).

More details about the reductions in revenue can be found in Chapters 6 and 8 below.

In response to these challenges, the 2011-12 Budget identifies further savings totalling \$637.7 million over four years, described as ‘measures to offset the GST reduction’. This savings initiative is detailed in an *Efficiency Savings Background Brief* published separately to the budget papers<sup>161</sup> and disclosed as a single line item deduction from each department’s aggregate cost of new initiatives in Budget Paper No.3 (*2011-12 Service Delivery*).<sup>162</sup>

The ‘election commitment savings’ and the ‘measures to offset the GST reduction’ together bring the total savings to \$2.2 billion over the five years to 2014-15. Figure 4.8 provides a break-down of the savings expected to be achieved by departments over the five years as a result of these two savings initiatives.

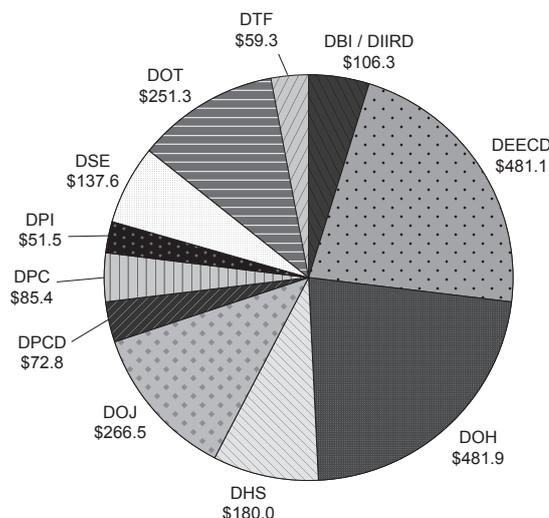
159 *ibid.*, p.92

160 Department of Treasury and Finance, *Victorian Budget: 2011-12 Budget Overview*, May 2011, pp.2, 6; Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.4

161 Department of Treasury and Finance, *Victorian Budget 2011-12: Efficiency Savings Background Brief*, n.d.

162 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, Chapter 2

**Figure 4.8 Total savings from ‘election commitment savings’ and ‘measures to offset the GST reduction’, by department (five-year totals)**



Note: funding amounts are in \$ million

Source: Budget Paper No.3, 2011-12 Service Delivery, Chapter 2

The Committee notes that four departments are required to achieve total savings in excess of \$250.0 million over five years. Two departments (the Department of Education and Early Childhood Development and the Department of Health) are collectively required to find almost half of the overall savings listed in the 2011-12 Budget. The Department of Education and Early Childhood Development is expected to achieve overall savings of \$481.1 million, while the Department of Health is expected to save slightly more, \$481.9 million. Of the other departments, Transport and Justice are required to achieve savings totalling \$251.3 million and \$266.5 million, respectively. The Committee notes that the level of savings are broadly proportionate to the level of expenditure on outputs in each department, with the exception of the Department of Health, whose proportion of the total amount of savings is significantly less than its proportion of expenditure on outputs (see Table 4.5). However, as noted in Chapter 2 above, the Government has not disclosed the basis on which these savings were determined, so the reasons for such discrepancies are unclear.

**Table 4.5: Savings initiatives in the 2011-12 Budget (five-year totals) compared to expenditure on outputs, by department**

| Department                                | Savings<br>(\$ million) | Output costs<br>(\$ million) | Savings<br>(% of total savings) | Output costs<br>(% of total output costs) |
|---|-------------------------|------------------------------|---------------------------------|---|
| Business and Innovation                   | 106.3                   | 667.7                        | 4.9                             | 1.6                                       |
| Education and Early Childhood Development | 481.1                   | 10,990.2                     | 22.1                            | 26.1                                      |
| Health                                    | 481.9                   | 13,066.1                     | 22.2                            | 31.0                                      |
| Human Services                            | 180.0                   | 3,375.0                      | 8.3                             | 8.0                                       |
| Justice                                   | 266.5                   | 4,430.3                      | 12.3                            | 10.5                                      |
| Planning and Community Development        | 72.8                    | 576.6                        | 3.3                             | 1.4                                       |
| Premier and Cabinet                       | 85.4                    | 631.4                        | 3.9                             | 1.5                                       |
| Primary Industries                        | 51.5                    | 530.7                        | 2.4                             | 1.3                                       |
| Sustainability and Environment            | 137.6                   | 1,515.6                      | 6.3                             | 3.6                                       |
| Transport                                 | 251.3                   | 5,963.9                      | 11.6                            | 14.2                                      |
| Treasury and Finance                      | 59.3                    | 239.3                        | 2.7                             | 0.6                                       |
| Parliament                                | -                       | 152.8                        | -                               | 0.4                                       |
| <b>Total</b>                              | <b>2,173.7</b>          | <b>42,139.6</b>              | <b>100.0</b>                    | <b>100.0</b>                              |

Source: Budget Paper No.3, 2011-12 Service Delivery, May 2011, Chapters 2 and 3

#### 4.5.1 Sources of the election commitments savings

Budget Paper No.3 (2011-12 Service Delivery) tabulates the ‘election commitment savings’ expected to be generated over the five years to 2014-15 according to 11 sources based on the nature of the expenditure.<sup>163</sup> The major sources from which departments are required to find the \$1.6 billion in savings are:<sup>164</sup>

- supplies and consumables – \$722.3 million (46 per cent);
- government advertising – \$255.0 million (16 per cent);
- consultants – \$185.0 million (12 per cent); and
- capping head office staff – \$131 million (8 per cent)

These initiatives are discussed in more detail in Chapter 2 above.

The Committee sought details about departments’ expenditure in certain areas as part of its budget estimates questionnaire. The results suggested some anomalies and apparent inconsistencies between information provided to the Committee by departments and the detail

163 Budget Paper No.3, 2011-12 Service Delivery, May 2011, p.92

164 *ibid.*

of savings initiatives contained in the budget papers. This was particularly clear with respect to legal expenses and the use of consultants.

### **Legal expenses and consultants**

The total estimate for departmental expenditure on legal advice in 2010-11, as advised to the Committee by departments, was \$99.9 million.<sup>165</sup> The Department of Justice and Department of Transport together accounted for 79 per cent of this amount – spending \$61.4 million and \$17.9 million respectively. The Department of Justice advised that it anticipates spending \$5.8 million less in 2011-12 than in 2010-11 and the Department of Transport advised that it anticipated reducing its costs by \$1.4 million. According to the budget papers, the total savings across all departments for this category in 2011-12 is \$15.0 million.<sup>166</sup> After deducting the \$7.2 million of savings anticipated by the Department of Justice and Department of Transport, the remaining departments will have to find \$7.8 million in savings for legal advice. This equates to 38 per cent of the estimated cost for legal advice for these departments in 2010-11 (which was expected to total \$20.6 million), which would be a very significant cut.

With respect to consultants, the total revised estimate for departmental expenditure in 2010-11 was \$34.3 million.<sup>167</sup> By comparison, the 2011-12 Budget identifies a target for savings totalling \$39.9 million for 2011-12 for consultants across all departments<sup>168</sup> (i.e. \$5.6 million more than the total expenditure in 2010-11).

The apparent inconsistency between figures for expenditure on consultants supplied by the departments and the savings target for consultants as detailed in the budget papers may be caused by the definition of ‘consultant’ in the budget papers being different than that used by departments in responding to the Committee’s questionnaire. In this context, the Committee notes that in its questionnaire, it asked departments to supply details according to the Victorian Government Purchasing Board definitions. This definition excludes contractor services, for which departments typically incur substantial costs in addition to the cost of consultants. The Government has not indicated what definition it has used, so it is unclear to the Committee whether this apparent inconsistency is a function of definitional differences or some other matter. This reinforces the recommendations made in Part One of this report that the basis for quantifying departments’ contribution should be disclosed and that the actual savings achieved be reported.<sup>169</sup>

Whether the apparent discrepancy for legal expenses is also a function of definitional differences or some other matter is unclear. However, this case also underscores the importance of disclosing the basis for the Government’s targets and the actual savings achieved each year.

The Committee is particularly mindful that, if savings targets for the particular categories identified by the Government cannot be realised by departments, departments may be required

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165 departmental responses to the Committee’s 2011-12 budget estimates questionnaire — part B, with additional data supplied by Department of Transport, communication received 30 August 2011

166 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.92

167 departmental responses to the Committee’s 2011-12 budget estimates questionnaire — part B, with additional data supplied by Department of Transport, communication received 30 August 2011

168 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.92

169 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, Recommendations 3 and 4, p.21

to cut services in order to meet their budget targets. To assess this possibility, the Committee inquired at the budget estimates hearings as to departments' strategies to achieve the budgeted savings.

#### **4.5.2 Strategies employed by departments to achieve savings**

The Committee sought details at the budget estimates hearings about how the 'election commitment savings' and 'measures to offset the GST reduction' will actually be met across various portfolio areas within departments.

The Minister for Children and Early Childhood Development advised that *'the final breakdown of actual savings measures in actual dollar savings is still being considered by the department, and prior to 30 June the government will consider the final list of proposed savings.'*<sup>170</sup>

At the budget estimates hearing for the Attorney-General's portfolio, the Attorney-General took a question on notice relating to savings measures in the Justice portfolio. The Committee requested how the Department will incorporate the savings from the previous government, the 'election commitment savings' and the 'measures to offset the GST reduction'. In responding to this question, the Department provided the Committee with a break-down of savings by portfolio, including Victoria Police.<sup>171</sup> However, the Department did not specifically itemise the sources of these savings.

Several ministers indicated that frontline services would not be cut as a result of these savings. The Minister for Education stated that *'staff employed in front-line services, such as the primary and secondary school nursing program and the early childhood intervention services, will be protected.'*<sup>172</sup> The Minister for Health advised the Committee that *'there will be savings initiatives for the department and any costs to the health services would be in administration.'*<sup>173</sup>

In its response to a question taken on notice regarding achieving savings targets in 2011-12, the Department of Justice stated that:<sup>174</sup>

*... the department considers how best to allocate and manage these savings minimising the impact on services to the community.*

*Mostly savings will be incorporated into the budget through efficiencies in corporate and head office functions and identification of savings in major contracts managed by the department, where efficiencies can be implemented through renegotiation.*

170 Hon. W. Lovell, MLC, Minister for Children and Early Childhood Development, 2011-12 budget estimates hearing, transcript of evidence, 18 May 2011, p.9

171 Mr P. D'Adamo, Director, Planning Performance Projects, Department of Justice, response to questions on notice, correspondence received 27 June 2011

172 Hon. W. Lovell, MLC, Minister for Children and Early Childhood Development, 2011-12 budget estimates hearing, transcript of evidence, 18 May 2011, p.9

173 Hon. D. Davis, MLC, Minister for Health, 2011-12 budget estimates hearing, transcript of evidence, 11 May 2011, p.12

174 Mr P. D'Adamo, Director, Planning Performance Projects, Department of Justice, response to questions on notice, correspondence received 27 June 2011

*By implementing these efficiency measures and spreading the election and GST reduction savings across the department, the department is aiming to fully realise the savings requirement without materially impacting on the level and quality of service delivery or policy development capacity.*

However, the Minister for Higher Education and Skills, in response to a question about how the planned savings would be met, advised the Committee that some programs that did not have ongoing funding budgeted for them would lapse. The Minister referred to a program for apprenticeship field officers and training programs which are lapsing.<sup>175</sup> The Committee notes that achieving the savings through not continuing lapsing programs is quite a different approach to what is suggested in the details of the Government's 'election commitment savings' which indicate that savings will come from reducing particular expenditure types rather than by reducing programs (although the 'measures to offset the GST reduction' do include some program discontinuations<sup>176</sup>). This again underscores the importance of departments reporting on how they achieved the savings targets to ensure that the Government's intentions are met.

### 4.5.3 Disclosure of savings in the budget papers

The Committee considers that the Government's 2011-12 Budget strategy, which incorporates specific objectives such as achieving a budget surplus, delivering on election commitments and maintaining sustainable debt levels,<sup>177</sup> is very much predicated on the departments achieving their allocated savings targets. The Committee also notes that savings initiatives have been a feature of a number of recent budgets, but that the 2011-12 Budget's total of \$2.2 billion is significantly higher than other recent budgets (see Table 4.6).

**Table 4.6: Total value of savings initiatives (five-year totals) released in budgets, 2007-08 to 2011-12**

| 2007-08 Budget<br>(\$ million) | 2008-09 Budget<br>(\$ million) | 2009-10 Budget<br>(\$ million) | 2010-11 Budget<br>(\$ million) | 2011-12 Budget<br>(\$ million) |
|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| 576.9                          | 499.2                          | 714.8                          | -                              | 2,173.7                        |

Sources: *Budget Paper No.3, Service Delivery, 2007-08 – 2010-11, Appendix A*  
*Budget Paper No.3, 2011-12 Service Delivery, May 2011, Chapter 2*

Given these observations, the Committee is concerned about the adequacy of detail provided for savings in the budget papers, particularly, for example, in relation to each department's share of the targeted sources of savings and the absence of information on the methodology used for quantifying each department's share of targeted savings.

Detailed commentary on these presentation issues is provided in Chapter 2 of the Committee's *Report on the 2011-12 Budget Estimates — Part One* (reproduced as Chapter 2 in this part without the recommendations), which included recommendations to enhance the overall

175 Hon. P. Hall, MLC, Minister for Higher Education and Skills, 2011-12 budget estimates hearing, transcript of evidence, 17 May 2011, pp.5-6

176 Department of Treasury and Finance, *Victorian Budget 2011-12: Efficiency Savings Background Brief*, n.d., p.2

177 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, pp.3-4

presentation of election commitments and targeted savings in future budget papers. The Committee recommended that additional disclosures should include:<sup>178</sup>

- tabulations breaking down allocations of election commitments and associated savings by department and reconciling departmental allocations with aggregates disclosed elsewhere in the budget papers;
- the strategies to be followed to achieve all identified savings; and
- the basis adopted for quantifying each department's expected contribution to each identified savings source.

The Committee also recommended that action taken by the Government to enhance the disclosure of savings targets within the budget papers be matched by equivalent improvements in the reporting of actual savings in its annual financial report and departmental annual reports.<sup>179</sup>

Whilst acknowledging that several ministers have indicated that the savings will not affect frontline service delivery, the Committee has also noted in its analysis in this chapter that the savings targets are large and that the targets are inconsistent with data provided to the Committee by the departments about expenditure (see Section 4.5.1). In the light of these facts, the Committee considers that departments should report on whether or not there have been any impacts on service delivery that have resulted from the Government's savings measures.

**Recommendation 20: Departmental annual reports disclose any impacts on service delivery of budget savings measures.**

#### **4.5.4 Output initiatives funded for the same amount in each year of the forward estimates**

Funding for new output initiatives is generally allocated for expenditure over a number of years. In many cases, significant variations occur in the amount of expenditure from one year to the next.

The budget papers do not provide explanations for these variances. In its *Report on the 2010-11 Budget Estimates*, the Committee of the previous Parliament recommended that the Department of Treasury and Finance consider explaining 'how strategic planning has influenced significant fluctuations in funding for output and asset initiatives in the out years.'<sup>180</sup> In response, the current government indicated that it:<sup>181</sup>

*... will seek to improve the information available to the public that explains fluctuations in funding for output and asset initiatives in the out years. The*

178 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates – Part One*, June 2011, Recommendation 3, p.21

179 *ibid.*, Recommendation 4, p.21

180 Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates – Part Three*, September 2010, Recommendation 8, p.66

181 Victorian Government, Government Responses to the Committee's 96<sup>th</sup> Report on the 2010-11 Budget Estimates — Part Three, tabled 16 March 2011, p.4

*form that this will take and when this will be implemented will be determined by the Government in the context of proposals being developed by DTF for a strengthened planning and performance management framework.*

The Committee looks forward to seeing this information in future budget papers.

In addition to these fluctuations requiring explanation, the Committee also notes that, for some initiatives, the Budget provides exactly the same amount of funding in the budget year and each year of the forward estimates. The Committee observes that funding provided for such programs, in real terms, is reduced over time after adjusting for inflation. The consequence is that either service delivery will be reduced for these programs or the funding reduction (in real terms) must be offset by efficiency savings if service delivery is to be maintained over time. Table 4.7 provides some examples.

**Table 4.7: Examples of initiatives which have received the same amount of funding for each year of the forward estimates**

| Initiative   | Description   | Funding provided each year (2011-12 to 2014-15) | Value of that funding in real terms in 2014-15 <sup>(a)</sup> |
|--|---|---|---|
| <b>Department of Health</b>  |   |   |   |
| <i>Strengthening Palliative Care</i>   | A number of measures to improve palliative care services.   | \$8.6 million                                   | \$8.0 million   |
| <i>Preventing Alcohol and Drug Abuse – Investing in Treatment Services</i>         | A range of additional services including therapeutic counselling, consultancy, continuing care services and pharmacotherapy.  | \$5.0 million                                   | \$4.6 million   |
| <b>Department of Planning and Community Development</b>                            |   |   |   |
| <i>Revitalising Victoria's Heritage</i>  | Support for Heritage Victoria, the Heritage Council and local governments to meet their regulatory responsibilities on an ongoing basis.                            | \$2.6 million                                   | \$2.4 million   |
| <i>The Premiers' Reading Challenge Book Fund</i>                                   | Support for public libraries involved in the Challenge to purchase books and materials.   | \$1.1 million                                   | \$1.0 million   |
| <b>Department of Primary Industries</b>  |   |   |   |
| <i>Core Funding for the Royal Society for the Prevention of Cruelty to Animals</i> | Ongoing support to the Royal Society for the Prevention of Cruelty to Animals Inspectorate to investigate claims of animal cruelty and undertake legal proceedings. | \$1.0 million                                   | \$0.9 million   |

Note: (a) based on consumer price index forecasts in Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.9

Source: Budget Paper No.3, 2011-12 Service Delivery, May 2011, Chapters 1 and 2

The Committee notes that, from the descriptions of these initiatives in the budget papers, they do not appear to be initiatives where the level of demand for the funded services will reduce over time.

Whether the Government is expecting reduced services or efficiencies, the Committee considers that the Government should be transparent about its approach. Just as significant fluctuations in the amount of funding provided for each year should be explained in the budget papers, explanations should also be provided for initiatives where the funding decreases over time in real terms for services where demand is not expected to decline. If the Government has set the funding at the same levels over the forward estimates in a number of initiatives as a way of encouraging efficiencies, the Government should state that this is what it is doing, quantify the efficiency savings in real terms that it hopes to achieve and provide some details of how it expects departments to achieve them.

**Recommendation 21:** For initiatives where funding is expected to reduce in real terms over the forward estimates but where demand is not expected to decline, the Government should indicate in the budget papers whether it is expecting departments to achieve efficiencies or reduce services.

**Recommendation 22:** If the Government intends to encourage departments to achieve efficiencies by providing a number of initiatives with the same (nominal) amount of funding over the forward estimates period, the budget papers should clearly indicate that this is the Government's intention, quantify the savings target in real terms and provide details of how departments are expected to achieve these efficiencies.

On a related matter, the Committee notes that the 2011-12 Budget provides no increase in the funding allocation to parliamentary investigatory committees compared to the previous year, despite the introduction of three new standing upper house committees and the continuation of all of the committees from the previous parliament.

The Budget provided \$6.9 million in total output funding for parliamentary committees in 2010-11 and the same amount in 2011-12.<sup>182</sup> This is a reduction of around \$200,000 in real terms compared to 2010-11.

At the budget estimates hearing into the Parliamentary Departments portfolio, the Committee sought information about the adequacy of resources for parliamentary committees given the increase in workload and the reduction to their budget in real terms.

The President of the Legislative Council advised the Committee that the adequacy of resourcing is a matter of concern to the Department of the Legislative Council. The President advised that the structure for the Legislative Council parliamentary committees is new and that the Department is not in a position to totally anticipate the workload in terms of the number of references that those committees might receive. The President indicated that existing budgetary resources are, at best, adequate to meet the needs of committees and that more people would be needed if the committees were to receive more references. He also indicated that the area of most concern is in the research capacity of those committees.<sup>183</sup>

182 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.371

183 Hon. B. Atkinson MLC, President of the Legislative Council, 2011-12 budget estimates hearing, transcript of evidence, 9 May 2011, pp.10-11

The Committee believes that an appropriate level of resources needs to be maintained to ensure parliamentary committees continue to deliver quality and timely outcomes. The addition of three new committees in 2011, accompanied by a reduction in real terms of funding, may place additional pressure on existing resources. As with the output initiatives whose nominal amount of funding remains the same over the forward estimates, the Committee considers that the Government should be transparent about whether it is expecting a reduction in service levels or expecting the Parliamentary Departments to achieve efficiencies.

## **4.6 Improvements to the disclosure of output initiatives in the budget papers**

In addition to the matters raised above, the Committee has identified a number of improvements that could be made to the way that new output initiatives are presented in the budget papers. In particular, the Committee notes that the budget papers make relatively little mention of how new output initiatives compare to output initiatives released in prior budgets. The Committee considers that this is an area where there is scope for improved disclosure, so that the Parliament and community can better understand what is new in a particular budget. The recommendations in Sections 4.2 and 4.3 above are focused on increasing disclosure in this area, and the recommendations below also identify areas for increased transparency connected with continued initiatives and initiatives with reduced funding.

### **4.6.1 Output initiatives that are a continuation of the previous year**

As the budget papers explain, a number of initiatives in the 2011-12 Budget are continuations of programs that were released in previous budgets for which funding was not allocated beyond the end of 2010-11.<sup>184</sup> At the budget estimates hearings, several ministers also specified that a number of initiatives in the 2011-12 Budget were continuations of these ‘lapsing’ programs. It is not, however, always easy to identify from the budget papers which budget initiatives are continuations of programs released in previous budgets. For some of these initiatives, the descriptions in Chapters 1 and 2 of Budget Paper No.3 (*2011-12 Service Delivery*) do note that they are continuing previous programs. For others, however, this is not the case.

The Committee considers that being able to clearly identify which initiatives continue previous programs and which are altogether new would assist readers of the budget papers in understanding the Government’s intentions with the Budget.

**Recommendation 23: Future budget papers clearly identify initiatives that continue programs released in previous budgets.**

### **4.6.2 Reprioritisation and adjustments of resources**

The Committee notes that the 2011-12 budget papers include a new line item for ‘funding from reprioritisation and adjustments’, which includes the reprioritisation of resources

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184 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.2

previously allocated to departments.<sup>185</sup> The budget papers disclose, in aggregate for all departments, an amount of \$931.8 million of funding released through this means over the four years to 2014-15.

The Committee commends the Government for including this line item, which the Committee notes has not appeared in previous budget papers. However, the Committee considers that this large figure should be broken down into its components. Additional details, such as which programs in which departments the funding has been reprioritised from and the impact of reduced funding in these areas, would enhance the transparency of this process.

**Recommendation 24: Details of the programs and departments from which funding is reprioritised in a budget, along with the impact of reduced funding in those areas, should be provided in future budget papers or the supporting budget data sets located on the Department of Treasury and Finance’s website.**

#### **4.6.3 Linkage between output initiative funding and key government policies**

One final area for improvement continues a theme discussed in Chapter 3 above – the linkage of budget funding to Government goals and policies. In its *Report on the 2010-11 Budget Estimates*, the Committee recommended that the Department of Treasury and Finance consider disclosing, for each new budget initiative, the goal, strategy or plan that underpins it, as well as the responsible minister, and grouping output initiatives according to major government policies where feasible.<sup>186</sup>

In responding to the recommendation, the current government indicated that the Department of Treasury and Finance ‘will develop options to enhance the information available to the public on the link between new funding and key government policies and priorities.’<sup>187</sup> The Committee did not see any substantial evidence of this in the 2011-12 budget papers. In fact, as discussed in Chapter 3, a key change to the budget papers since 2010-11 involves the removal of information that related to the policies of the previous government, most notably *Growing Victoria Together*. However, the Committee does note that, at the time of the Budget, few formal policies had been released by the Government and there was therefore limited scope to link initiatives to Government policies and priorities.

An improvement was made to the way that new output initiatives are detailed in Budget Paper No.3 (*2011-12 Service Delivery*), with initiatives now being categorised into a number of key service areas for each department. For example, new output initiatives for the Department of Health are categorised under the following key service areas:<sup>188</sup>

- acute health services;

185 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.30

186 Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates — Part Three*, September 2010, Recommendation 6, p.66

187 Victorian Government, Government Responses to the Committee’s 96<sup>th</sup> Report on the 2010-11 Budget Estimates — Part Three, tabled 16 March 2011, p.3

188 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.29-30, 112

- ambulance services;
- mental health;
- ageing, aged and home care;
- primary, community and dental health;
- public health; and
- drug services.

The Committee commends the grouping of initiatives according to such categories, but considers that it would be more helpful if these categories linked to other categorisations of departments' work, such as output groups or ministerial portfolios. The Department of Treasury and Finance may wish to consider this in developing its options in response to the Committee's previous recommendation.

The Committee looks forward to improved disclosure of the linkages between new output initiatives and Government policies and priorities in future budget papers, once more policies have been released by the Government and the Department of Treasury and Finance has developed appropriate options.

## CHAPTER 5: GENERAL GOVERNMENT SECTOR ASSET INVESTMENT

### Chapter overview:

- 5.1** The Government expects expenditure on approved asset investment projects to be in the order of \$6.4 billion for 2011-12, of which \$517.4 million is new initiatives released in the 2011-12 Budget.
- 5.2** A large variety of terms is used throughout the budget papers when referring to asset investment. These terms include: ‘infrastructure’, ‘capital’, ‘non-financial assets’, ‘assets’, ‘fixed assets’, ‘total estimated investment’ and ‘major projects’. The Committee considers that this variety of terms makes it difficult for readers of the budget papers to understand exactly what money is being spent on and to trace expenditure from one budget paper to another.
- 5.3** The Committee also notes that it is difficult to reconcile the estimates for asset investment expenditure in the different budget papers. For example, there is a \$2.8 billion difference between the figures in Budget Paper No.2 and Budget Paper No.4 for the estimated expenditure for the general government sector.
- 5.4** There are a number of asset projects currently being delivered where additional funding will be required beyond the forward estimates period, e.g. the Bendigo Hospital redevelopment, Box Hill Hospital redevelopment and Victorian Comprehensive Cancer Centre.
- 5.5** Of the Government’s \$2.4 billion of asset election commitments, funding totalling \$1.1 billion has been allocated in the 2011-12 Budget for the five-year period to 2014-15. The remaining asset commitments are expected to be fully funded in future budgets during this term of government.
- 5.6** The Government’s published asset investment program reveals \$15.4 billion (total estimated investment) worth of projects currently in the general government sector, with \$3.7 billion to be spent in 2011-12 and around a third of the expenditure to occur in future years.
- 5.7** Funding for the new asset initiatives released in the 2011-12 Budget over the five years to 2014-15 totals \$1.5 billion, with the largest proportions going to the Department of Transport (\$609.5 million) and the Department of Health (\$407.8 million).
- 5.8** The total funding for asset initiatives (five-year totals) declined marginally from \$9.1 billion in the 2009-10 Budget to \$8.6 billion in the 2010-11 Budget, but has reduced significantly to \$1.5 billion in the 2011-12 Budget. The largest reductions in asset initiative funding between the 2009-10 and the 2011-12 Budgets occur in relation to the Department of Education and Early Childhood Development (\$2.7 billion to \$243.0 million) and the Department of Transport (\$4.7 billion to \$609.5 million).

- 5.9** Seven asset initiatives released in the 2011-12 Budget have total estimated investments in excess of \$50.0 million: the expansion of the Bendigo Hospital redevelopment, the *Rural Capital Support Fund*, emergency services funding for bushfire response, 40 new trains for Melbourne, the Koo Wee Rup Bypass, new school construction and land acquisition, and roads projects under the *Nation Building Program*.
- 5.10** The Government has indicated that it is facing significant cost overrun pressures on some existing asset projects. The funding required to address these pressures is estimated by the Government at \$2.0 billion. The Committee notes a lack of disclosure of the individual cost pressures for almost half of these projects due to ongoing negotiations, which in total comprise \$1.8 billion or 89 per cent of the total estimate.
- 5.11** The value of non-financial assets for the general government sector in the form of land, buildings, infrastructure, plant and equipment is estimated to be \$100.5 billion at 30 June 2012. The largest asset categories relate to land and national parks (\$38.9 billion or 39 per cent), buildings – written down value (\$24.1 billion or 24 per cent) and roads and road networks – written down value (\$21.4 billion or 21 per cent).
- 5.12** An estimated \$491.2 million from the 2010-11 appropriations is expected to be unspent and carried over to 2011-12. The following departments have the largest share of the carryover estimate:
- Department of Education and Early Childhood Development – \$201.8 million (41 per cent);
  - Department of Transport – \$135.7 million (28 per cent); and
  - Department of Sustainability and Environment – \$64.3 million (13 per cent).
- 5.13** The Government has provided a contingency provision for asset investment projects that have not yet been specified of \$2.7 billion in the 2011-12 Budget. This provision is made up of \$394.3 million for 2012-13, \$489.1 million for 2013-14 and \$1.9 billion for 2014-15. This contingency provision is more than double the amount provided in the 2010-11 Budget (a total of \$1.2 billion for the three outyears).
- 5.14** The Committee considers that there is scope for increased detail to be provided about asset projects procured through Partnerships Victoria and asset projects under review at the time of the 2011-12 Budget.

## 5.1 Introduction

The 2011-12 Budget anticipates expenditure on asset investment to equal \$6.4 billion in 2011-12,<sup>189</sup> including \$517.4 million of new initiatives announced in this budget.<sup>190</sup> The Treasurer indicated that funding in 2011-12 will cover ‘one of the biggest infrastructure investments in Victoria’s history’.<sup>191</sup> Among other initiatives, new trains are to be purchased, level crossings are to be improved, new investments are to be planned to expand the rail network and funds are to be invested in arterial roads.<sup>192</sup> Funding is also devoted to repairing flood-affected assets and responding to the Victorian Bushfires Royal Commission.<sup>193</sup> This funding is provided for acquiring new assets, renewing existing assets and replacing existing assets.<sup>194</sup>

The Government has indicated that its election commitments are focused on managing Victoria’s growth, the need to address the challenges of a growing population and meeting the community’s expectations about service quality and liveability. The Government considers that having the necessary infrastructure in place will be a key factor in ensuring Victoria’s economic success.<sup>195</sup> Productivity has been identified by the Government as one of the elements of economic success that infrastructure can contribute to:<sup>196</sup>

*Investment in productivity-enhancing infrastructure will benefit every sector of the Victorian economy... Capital investment is another crucial driver of productivity. Reform of infrastructure planning, financing and delivery will help drive investments that enhance productivity.*

The Government considers improving productivity an important part of its agenda and has noted, as shown in Figure 5.1, that Victoria currently finds itself below the national average labour productivity growth rate.

189 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.31

190 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, Chapter 2

191 Budget Paper No.1, *2011-12 Treasurer’s Speech*, May 2011, p.2

192 *ibid.*

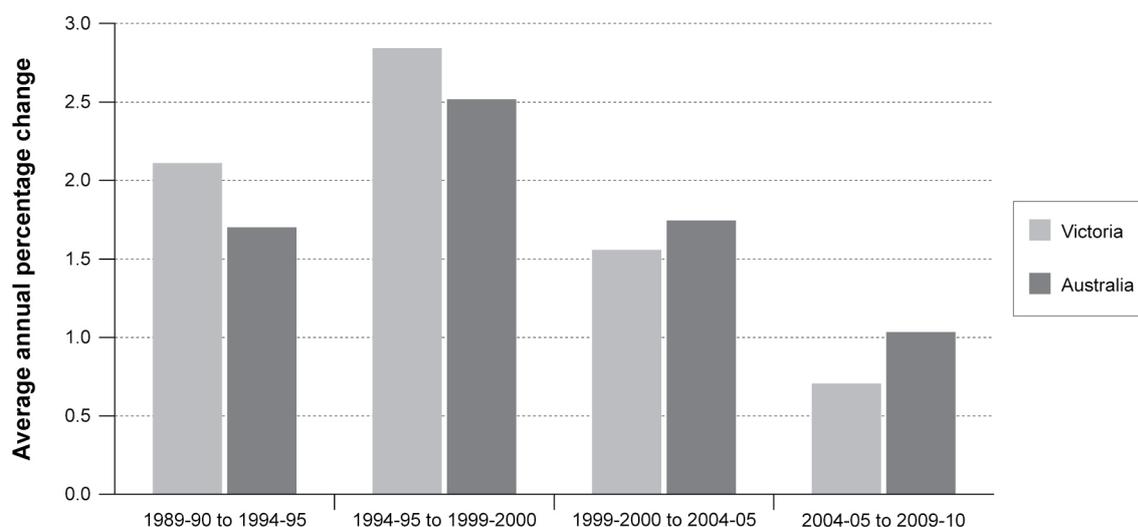
193 Victorian Budget, *2011-12 Budget Overview*, May 2011, pp.6-7,12

194 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, p.7

195 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.3

196 *ibid.*, p.19

**Figure 5.1 Average annual labour productivity growth  
(Victoria compared to Australia as a whole)**



Source: *Budget Paper No.2, 2011-12 Strategy and Outlook, p.16*

The Government is also facing a number of pressures in the asset investment area:

- in order to fund the infrastructure program, the Government has relied heavily on borrowings, but the Treasurer foreshadowed in the Budget that this trend cannot be permitted to continue indefinitely;<sup>197</sup>
- the Budget has identified cost pressures impacting on a number of existing major projects, with an aggregate cost overrun estimated by the Government at \$2.0 billion;<sup>198</sup> and
- the Independent Review of State Finances has found that there is a need to increase infrastructure spending in the future.<sup>199</sup>

The Government has introduced a number of measures designed to mitigate the cost overrun pressures.<sup>200</sup> The Independent Review of State Finances is expected to produce its Final Report in February 2012, which will include advice on how to increase infrastructure spending (see further in Section 5.8 below).<sup>201</sup>

197 Budget Paper No.1, *2011-12 Treasurer's Speech*, May 2011, p.2

198 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, p.2

199 Independent Review of State Finances, *Interim Report*, April 2011, p.26

200 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, p.2

201 Independent Review of State Finances, *Interim Report*, April 2011, p.31

## 5.2 Disclosure of annual asset investment estimates in the budget papers

### 5.2.1 Terminology used to describe annual asset spending estimates

The Committee observes that a variety of terms is used throughout the budget papers when referring to estimates relating to asset spending. In an overall sense, what was in previous budgets referred to as the ‘Public Sector Asset Investment Program’ is now referred to as the ‘State Capital Program’. Seven terms that are used to describe estimates in this context are: ‘infrastructure’, ‘capital’, ‘non-financial assets’, ‘assets’, ‘fixed assets’, ‘total estimated investment’ and ‘major projects’. Examples of these differing terms used throughout the budget papers are illustrated in Table 5.1.

**Table 5.1: Examples of different terminology related to asset investment used throughout the budget papers**

| Budget Paper No.1          | Budget Paper No.2                     | Budget Paper No.3                | Budget Paper No.4                       | Budget Paper No.5   |
|----------------------------|---------------------------------------|----------------------------------|---|---|
| infrastructure investments | net investment in fixed assets        | capital investments              | capital program                         | purchases of non-financial assets                         |
| capital projects           | expenditure on approved projects      | asset initiatives                | infrastructure projects                 | new investments in non-financial physical assets          |
| infrastructure spending    | net infrastructure investment program | infrastructure program           | capital investment                      | net acquisition of non-financial assets from transactions |
|                            | asset initiatives                     | total estimated investment (TEI) | total estimated investment (TEI)        |   |
|                            | new asset funding                     |                                  | capital investments in assets           |   |
|                            | total estimated investment (TEI)      |                                  | investment in new infrastructure assets |   |
|                            |                                       |                                  | major project                           |   |
|                            |                                       |                                  | capital expenditure                     |   |

Sources: *Budget Paper No.1, 2011-12 Treasurer’s Speech, May 2011, pp.2-3;*  
*Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.31;*  
*Budget Paper No.3, 2011-12 Service Delivery, May 2011, pp.13, 17, 109, 407;*  
*Budget Paper No.4, 2011-12 State Capital Program, May 2011, pp.1-2, 5, 9-10; and*  
*Budget Paper No.5, 2011-12 Statement of Finances, May 2011, pp.1, 11, 22, 34-5*

The Committee considers that the variety of different terms, many of which refer to the same thing, makes it difficult for readers of the budget papers to understand exactly what money is being spent on and to trace expenditure from one budget paper to another. The Committee believes that, rather than using the terms ‘asset’, ‘infrastructure’ and ‘capital’ interchangeably throughout the budget papers, readability and understanding of the budget papers would be enhanced if a common form of terminology were used in future to explain the budget. The Committee notes that the term ‘asset’ is used in the Appropriation Act.

**Recommendation 25:** Rather than using the terms ‘asset’ ‘infrastructure’ and ‘capital’ interchangeably throughout the budget papers, the Department of Treasury and Finance adopt a common term for budgetary reporting purposes. If the use of a number of terms is to be continued, they should be explained in a glossary to the budget papers.

### 5.2.2 Presentation in the budget papers

As the 2011-12 Budget is the first budget handed down by the new Government after the 2010 election, asset investments emanating from the election commitments are detailed separately from other new asset initiatives.<sup>202</sup> The Committee also notes that a budget paper has been dedicated solely to asset investment.<sup>203</sup> This is the first time that this information has been released as a budget paper rather than as an information paper accompanying the budget papers (see Section 3.2.5 of Chapter 3 for further discussion).

#### *Varying disclosures throughout the budget papers*

The Committee in its *Report on the 2011-12 Budget Estimates — Part One* (reproduced as Chapter 2 in this part) described how information relating to the State’s asset program in the general government sector has been presented throughout the budget papers. In this regard, the Committee found that:<sup>204</sup>

*... this scattered approach to the presentation of the budgeted infrastructure program, with data recorded in particular budget papers not readily reconcilable with related material in other budget papers, hinders the Parliament’s analysis of such an important element of the Budget. While the quantity of presented data is ample, there is scope, from a user’s perspective, to enhance its quality...*

*In addition, budgeted asset expenditure estimates should be accompanied by information disclosing the sources of funding with a breakdown between Commonwealth contributions and State allocations.*

In building on the Committee’s previous recommendation for the Government to explore avenues for raising the quality and clarity of material on annual asset investment estimates presented in the budget papers,<sup>205</sup> the Committee is of the view that the data sets that support the budget papers should include a visible trail explaining how estimates dealing with asset investment in one budget paper reconcile with related estimates shown elsewhere in the budget papers. Specifically, the Committee believes that the trail should reconcile the items shown in Table 5.2. As part of this reconciliation, or accompanying it, there should be an explanation of the terms used to describe the components, as terms such as ‘investments in financial assets for policy purposes’ will not be clear to many readers otherwise.

The Committee considers that it is currently very difficult to understand how the different figures presented throughout the budget papers that relate to asset expenditure reconcile with each other. As shown in Table 5.2 and Figure 5.2, when comparing information drawn from

202 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, Chapters 1 and 2

203 Budget Paper No.4, *2011-12 State Capital Program*, May 2011

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

205 *ibid.*, Recommendation 7, p.27

Budget Paper No.2 (2011-12 Strategy and Outlook) to Budget Paper No.4 (2011-12 State Capital Program), there is a difference of \$2.8 billion between the estimated expenditure on approved projects disclosed in both budget papers for the general government sector. Part of the reason for this is indicated by Budget Paper No.5 (2011-12 Statement of Finances), which identifies \$2.3 billion of expenditure on 'investments in financial assets for policy purposes'. Budget Paper No.5 also indicates that \$4.1 billion is to be spent on non-financial assets. This, however, does not reconcile with the figure of \$3.7 billion provided in Budget Paper No.4. Budget Paper No.4 notes that this is due to threshold conventions (detailed in Table 5.2), which mean that some projects are not included in the totals. The Committee considers that this could readily be rectified by including a line item in each department's list of projects that provides an aggregated figure for expenditure on projects not meeting the thresholds.

**Table 5.2: Varying disclosures in the budget papers relating to estimated asset spending for the general government sector**

| Estimated asset spending disclosures in the budget papers  | 2011-12 Budget<br>(\$ million) | Basis of calculation/reconciling items   |
|--|--------------------------------|--|
| <b>Expenditure on approved projects (fixed assets)</b> (gross of proceeds from asset sales) <sup>(a)</sup> — Budget Paper No.2 | 6,445.8                        | This item is drawn from the table in the budget papers that outlines the <i>Application of cash resources for the general government sector</i> . It includes the total purchase of property, plant and equipment and capital contributions to other sectors of government.  |
| <b>Cash flows from investing activities</b> (gross of sales of non-financial assets) — Budget Paper No.5 <sup>(b)</sup>        | 6,445.8                        | This item is drawn from the table in the budget papers that outlines the <i>Estimated cash flow statement</i> for the general government sector. This is composed of: <ul style="list-style-type: none"> <li>• \$4,119.1 million of 'purchases of non-financial assets' (gross of sales of non-financial assets); and</li> <li>• \$2,326.7 million of 'net cash flows from investments in financial assets for policy purposes'.</li> </ul>  |
| <b>Estimated expenditure</b> 2011-12: general government capital program — Budget Paper No.4 <sup>(c)</sup>                    | 3,692.0                        | This item is drawn from the table in the budget papers that includes the <i>General government capital program 2011-12 – summary</i> . The general government capital program includes all projects with a total estimated investment equal to, or in excess of, \$250,000, but does not include capital grants paid to other sectors nor projects with a planned capital expenditure in 2011-12 of less than \$75,000. As disclosed in Budget Paper No.4, 'totals ... presented in this publication may not reconcile to the total purchases of non-financial assets as shown in Budget Paper No.5 ... due to Budget Paper No.4 threshold conventions.' |

Sources: (a) Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.31

(b) Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.11

(c) Budget Paper No.4, 2011-12 State Capital Program, May 2011, pp.5,9-10

**Recommendation 26:** The Department of Treasury and Finance disclose in the budget papers a reconciliation of the differing estimates for annual asset spending that are presented throughout the budget papers, including definitions of the terms used to describe the components.

**Recommendation 27:** To assist with reconciling figures, the Department of Treasury and Finance include in Budget Paper No.4 a line item for each department that aggregates the TEI, the estimated expenditure up to the budget year, the estimated expenditure in the budget year and the remaining expenditure on:

- (a) asset projects with a TEI of less than \$250,000;
- (b) projects where the planned expenditure in the budget year is less than \$75,000; and
- (c) capital grants paid to other sectors.

A further factor making it difficult to reconcile the various figures in Table 5.2 and Figure 5.2 is that the Committee understands that some are presented on a cash basis, whereas others are presented on an accrual basis. The Committee would expect the reconciliation recommended above to indicate and account for this. However, the Committee notes in this context that it is not always straight-forward for a reader of the budget papers to know whether figures are provided on a cash or accrual basis.

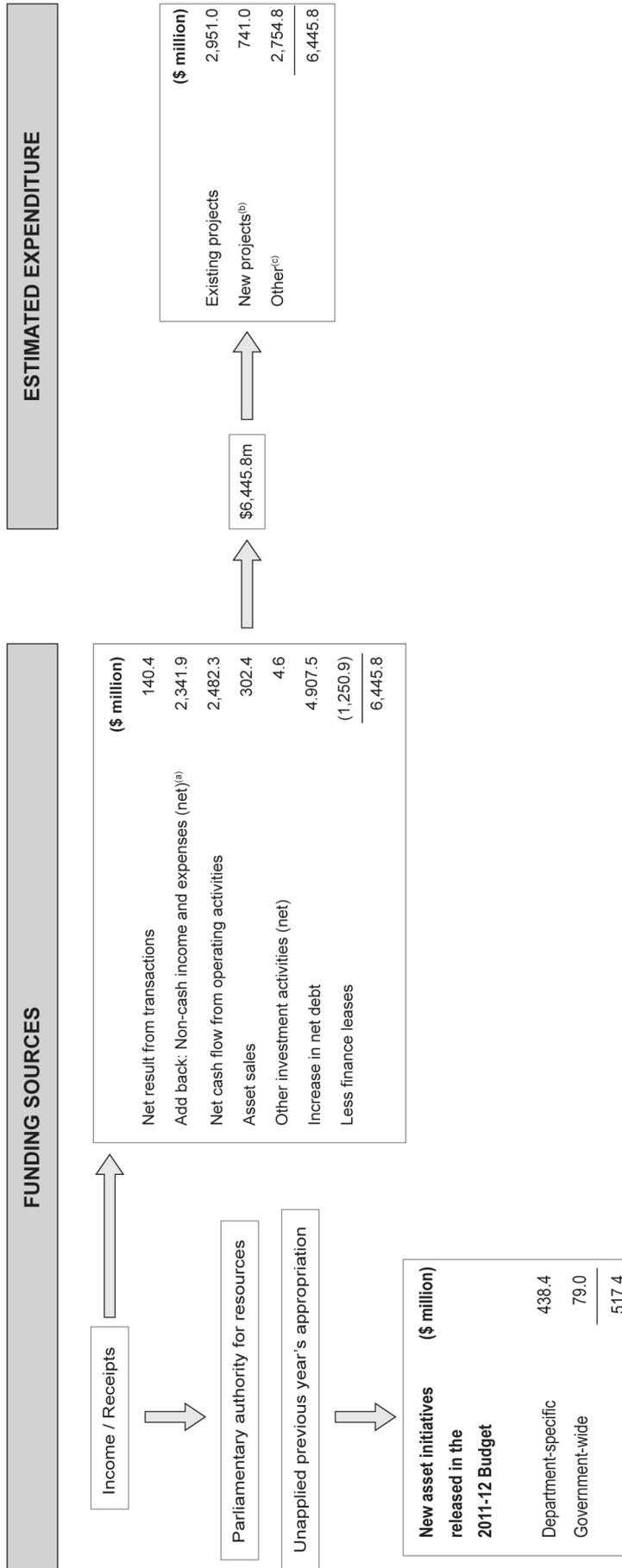
In Budget Paper No.5 (*2011-12 Statement of Finances*), the Government states that the ‘*accrual basis of accounting has been applied in the preparation of the Estimated Financial Statements whereby assets, liabilities, equity, revenue and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.*’<sup>206</sup> However, no such explanations are provided in the other budget papers. Although the Committee understands that estimates are provided on an accrual basis except where stated otherwise, the Committee considers that this could be made clearer by each budget paper clearly explaining the basis of accounting that has been adopted when calculating the financial details disclosed.

**Recommendation 28:** The Department of Treasury and Finance explain the basis of accounting that has been applied in developing material disclosed in each budget paper.

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206 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.15

**Figure 5.2 General government asset investment program – funding sources and estimated expenditure, 2011-12**



- Notes:**
- (a) includes depreciation, movements in the unfunded superannuation liability and liability for employee benefits
  - (b) this amount comprises asset initiatives released in the 2011-12 Budget totalling \$517.4 million (department-specific initiatives totalling \$438.4 million and government-wide initiatives of \$79.0 million) and \$223.6 million of new projects funded from other sources such as the Commonwealth's National Partnership Agreement and initiatives released in the 2010-11 Pre-Election Budget Update
  - (c) this amount is made up of:
    - projects with a TEI of less than \$250,000;
    - projects with a planned capital expenditure in 2011-12 of less than \$75,000
    - capital grants paid to other sectors of government; and
    - net cash flows from investments in financial assets for policy purposes (\$2.3 billion)
    - there may also be differences due to some figures being provided on a cash basis and some on an accrual basis

Sources: Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.31; Budget Paper No.4, 2011-12 State Capital Program, May 2011, p.8

The Committee notes that in comparing the funding for each department's asset initiatives for 2011-12 in Budget Paper No.3 (*2011-12 Service Delivery*) to the estimated expenditure to be incurred in 2011-12 for new projects in Budget Paper No.4 (*2011-12 State Capital Program*), there were discrepancies in a number of cases. The total difference between the figures is \$223.6 million. There appear to be three reasons for this:

- initiatives released in the 2010-11 Pre-Election Budget Update have been included as new projects in Budget Paper No.4 but are not listed as new initiatives in Budget Paper No.3;
- Commonwealth-funded projects appear in Budget Paper No.4 but are not listed in Budget Paper No.3; and
- some initiatives allocated to departments in Budget Paper No.3 are listed under other agencies in Budget Paper No.4.

Examples of these situations can be seen in Table 5.3.

**Table 5.3: Differences between departmental totals for asset initiative funding and estimated expenditure on new projects for 2011-12**

| Department                   | Asset initiative funding<br>(Budget Paper No.3)<br>(\$ million) | Estimated expenditure<br>(Budget Paper No.4)<br>(\$ million) | Variance<br>(\$ million) | Reason for estimated expenditure in 2011-12 on new projects exceeding asset initiative funding in the 2011-12 Budget   |
|------------------------------|---|--|--------------------------|--|
| Department of Health         | 94.4  | 153.2  | 58.8                     | Two initiatives ( <i>Improving Ambulance Service Delivery – Outer Metropolitan Melbourne</i> and <i>Improving Ambulance Service Delivery – Regional and Rural</i> ) were previously reported in the 2010-11 Pre-Election Budget Update, while another two initiatives have been funded from the Commonwealth through the <i>National Partnership Agreement on Improving Hospital Services</i> .  |
| Department of Human Services | 1.7   | 5.8  | 4.1                      | The <i>Melbourne Youth Justice Centre Refurbishment</i> initiative was previously reported in the 2010-11 Pre-Election Budget Update.  |
| Department of Justice        | 134.7   | 100.8  | -33.9                    | The estimated expenditure against the Department of Justice's <i>Bushfire Response – Emergency Services</i> initiative of \$62.7 million appears under the Country Fire Authority.<br><br>In addition, two initiatives ( <i>Coroners Court – Site Contamination Costs – Construction</i> and <i>Relocation of Emergency Services Telecommunications Authority State Emergency Communication Centre</i> ) were previously reported in the 2010-11 Pre-Election Budget Update, while one initiative has been funded from the Commonwealth. |

Sources: *Budget Paper No.3, 2011-12 Service Delivery, May 2011, pp.41,52,59,116,123,127;*  
*Budget Paper No.4, 2011-12 State Capital Program, May 2011, pp.32-4,38,53*

The Committee is of the view that where a total from one budget paper does not agree with that from another related source, the budget papers should disclose an explanation for such variances.

**Recommendation 29:** Where the total for new asset initiatives shown in Budget Paper No.3 differs from the estimated capital expenditure on new projects for a department disclosed in Budget Paper No.4, the Department of Treasury and Finance explain the difference in the budget papers.

## 5.3 Break-down of total asset investment funding for 2011-12 and over the forward estimates

### 5.3.1 Estimated expenditure on asset projects

Budget Paper No.4 details \$15.4 billion worth of asset investment projects that are currently underway in the general government sector. Table 5.4 shows a break-down of the total estimated investment (TEI) that the Government has committed to the asset program. As shown in Table 5.4, \$5.4 billion, or around a third of the State's asset program, is to be funded in future years. In relation to the \$3.7 billion estimated expenditure on the asset program that has been committed in the budget for 2011-12, \$3.0 billion relates to expenditure on existing projects (80 per cent) and \$0.7 billion relates to new projects (20 per cent).<sup>207</sup>

**Table 5.4: General government sector asset investment program – TEI**

| Period  | (\$ billion) | (%)        |
|---|--------------|------------|
| Estimated expenditure to 30 June 2011                           | 6.3          | 40.9       |
| Estimated expenditure on infrastructure committed to in 2011-12 | 3.7          | 24.0       |
| Remaining expenditure to occur over subsequent years            | 5.4          | 35.1       |
| <b>Total estimated investment</b>                               | <b>15.4</b>  | <b>100</b> |

Source: Budget Paper No.4, 2011-12 State Capital Program, May 2011, pp.7-8

### 5.3.2 New asset initiatives for 2011-12 released in the 2011-12 Budget

Of the \$3.7 billion estimated expenditure on assets in 2011-12, \$741.0 million is for new initiatives, made up of:<sup>208</sup>

- \$517.4 million relating to asset initiatives funded in the 2011-12 Budget for 2011-12 that comprise department-specific asset initiatives amounting to \$438.4 million and government-wide initiatives totalling \$79.0 million; and
- \$223.6 million to be spent on new projects primarily to be funded from Commonwealth grants or through initiatives released in the 2010-11 Pre-Election Budget Update.

207 Budget Paper No.4, 2011-12 State Capital Program, May 2011, p.8

208 Budget Paper No.3, 2011-12 Service Delivery, May 2011, Chapter 2; Budget Paper No.4, 2011-12 State Capital Program, May 2011, p.8

### 5.3.3 Aggregate funding for new asset initiatives released in the 2011-12 Budget

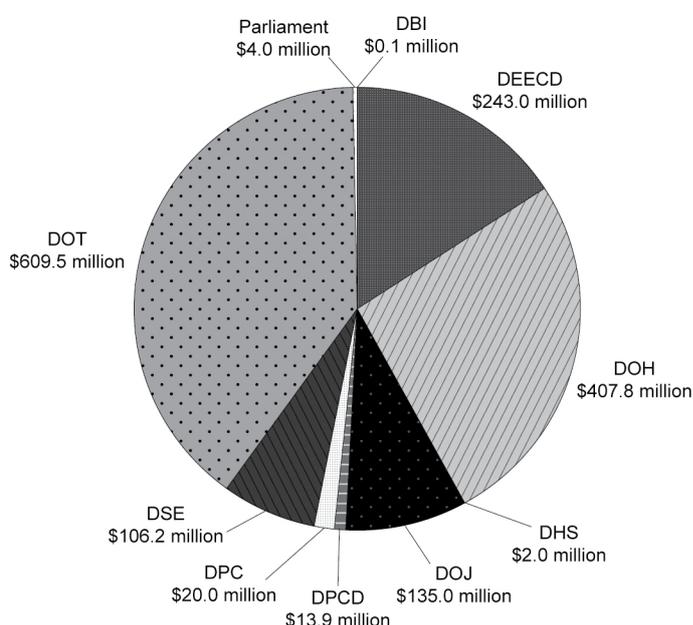
#### Analysis of aggregate asset funding

The total funding over the 2011-12 budget year and the forward estimates for new asset initiatives released in the 2011-12 Budget amounts to \$1.5 billion. Of this amount, funding for department-specific asset initiatives in 2011-12 and over the forward estimates from 2012-13 to 2014-15 totals \$1.4 billion, with the greatest allocations occurring in 2011-12 (\$517.4 million) and 2012-13 (\$553.6 million).<sup>209</sup> In addition, asset initiatives for 2010-11 amount to 15.3 million. In relation to government-wide asset initiatives over the five-year period, the total funding provided in the Budget amounts to \$97.6 million with the vast majority of funding allocated to 2011-12 (\$79.0 million).<sup>210</sup>

Figure 5.3 shows that the departments with the largest total new asset funding allocations in the 2011-12 Budget, which collectively comprise two thirds of the total new asset funding, are:

- Department of Transport: \$609.5 million – 39.5 per cent; and
- Department of Health: \$407.8 million – 26.4 per cent.

**Figure 5.3 Funding for new asset initiatives by department (including government-wide) over the five years to 2014-15**



Source: Budget Paper No. 3, 2011-12 Service Delivery, May 2011, pp.101-47

209 Budget Paper No.3, 2011-12 Service Delivery, May 2011, pp.102-47

210 *ibid.*, p.101

The Committee notes that the total funding for new asset initiatives declined marginally from \$9.1 billion in the 2009-10 Budget to \$8.6 billion in the 2010-11 Budget, but then reduced significantly to \$1.5 billion in the 2011-12 Budget (see Table 5.5). Asset spending in the 2009-10 and 2010-11 Budgets on initiatives connected with the global financial crisis and the February 2009 bushfires were the main drivers of this outcome.<sup>211</sup> The largest reductions in asset funding between the 2009-10 and the 2011-12 Budgets occur in relation to the Department of Education and Early Childhood Development (\$2.7 billion to \$243.0 million) and the Department of Transport (\$4.7 billion to \$609.5 million).

**Table 5.5: Aggregate asset funding over the past three budgets, 2009-10 to 2011-12**

| Budget         | Aggregate funding<br>(\$ million) | Variance from previous budget<br>(\$ million) | Variance from previous budget<br>(%) | TEI<br>(\$ million) | Variance from previous budget<br>(\$ million) | Variance from previous budget<br>(%) |
|----------------|-----------------------------------|---|--------------------------------------|---------------------|---|--------------------------------------|
| 2009-10 Budget | 9,078.7                           |   |                                      | 9,423.6             |   |                                      |
| 2010-11 Budget | 8,585.4                           | -493.3  | -5.4                                 | 9,825.8             | 402.2   | 4.3                                  |
| 2011-12 Budget | 1,541.5                           | -7,043.9                                      | -82.0                                | 1,670.4             | -8,155.4                                      | -83.3                                |

Source: *Budget Paper No.3, 2009-10 Service Delivery, May 2009; Budget Paper No.3, 2010-11 Service Delivery, May 2010; Budget Paper No.3, 2011-12 Service Delivery, May 2011*

Table 5.5 clearly shows that there can be considerable variations from one budget to another in terms of the total value of new asset initiatives released. The Committee considers that, to provide greater clarity about the Budget and the rationale behind it, the budget papers should compare this figure to the figure from previous years' budgets and explain significant variations.

**Recommendation 30: Future budget papers compare the total value of new asset initiatives released in that budget to the total value of new asset initiatives released in previous budgets, and explain significant variations.**

This substantial decline in the value of aggregated funding is also reflected in a corresponding reduction in TEI of \$8.2 billion or 83 per cent over the same period. The difference between the aggregate asset funding provided in a budget and the TEI is that the TEI can, in some cases, include funding that is committed to but will have to be met in future budgets. It can be seen from comparing the TEI and aggregated funding in Table 5.5 that this amount can be considerable, ranging from \$128.9 million in the 2011-12 Budget to \$1,240.4 million in the 2010-11 Budget. The Committee notes that the budget papers do not currently identify this amount.

211 Public Accounts and Estimates Committee, *Report on the 2009-10 Budget Estimates – Part Two*, October 2009, p.54;  
Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates – Part Three*, September 2010, pp.30-2

**Recommendation 31:** The Department of Treasury and Finance aggregate the funding of all new asset initiatives that has been approved in the budget, compare this total to the associated total estimated investment that has been committed to in the budget and disclose the balance that is to be funded in future budgets.

This difference can be quite significant for some particular projects. Table 5.6 provides three examples from the Health portfolio.

**Table 5.6: Examples of asset commitments in the Health portfolio where funding will be needed in subsequent budgets**

| Asset project  | TEI as at the 2011-12 Budget | Funding detailed in budgets to date <sup>(d)</sup> | Funding required in subsequent budgets |
|--|------------------------------|--|--|
|  | (\$ million)                 | (\$ million)                                       | (\$ million)                           |
| Bendigo Hospital Redevelopment <sup>(a)</sup>                    | 575.0                        | 216.5  | 358.5                                  |
| Box Hill Hospital Redevelopment <sup>(b)</sup>                   | 447.5                        | 316.8  | 130.7                                  |
| Victorian Comprehensive Cancer Centre (Parkville) <sup>(c)</sup> | 1,073.5                      | 1,019.1  | 54.4                                   |

Notes: (a) The revised TEI for this initiative includes additional funding of \$102 million committed to in the 2011-12 Budget for an election commitment to expand the scope of the Bendigo Hospital project. The 2011-12 Budget provides funding of \$20.5 million in 2014-15 towards this commitment.

(b) The revised TEI for this initiative includes additional funding of \$40.0 million committed to in the 2011-12 Budget for an election commitment to provide 100 additional beds. The 2011-12 Budget provides funding of \$5.5 million and \$14.0 million in 2013-14 and 2014-15 respectively towards this commitment.

(c) This is a joint initiative between the Commonwealth and the State. This initiative includes funding of \$219 million from non-government sources, \$426 million from the Commonwealth Government and \$429 million from the State Government. The procurement process is underway for the Centre and is to be delivered as a Partnerships Victoria project.

(d) This covers funding approved for expenditure in all years released in the 2010-11 Budget and 2011-12 Budget.

Sources: Budget Paper No.3, 2010-11 Service Delivery, May 2010, p.309;  
Budget Paper No.3, 2011-12 Service Delivery, May 2011, p.41;  
Budget Paper No.4, 2011-12 Capital Program, May 2011, pp.29-30

When questioned about such projects at the budget estimates hearing, the Minister for Health explained that:<sup>212</sup>

*These projects see expenditure as the project progresses. In the case of a Bendigo or a Box Hill, for example, the project begins slow and phases up as the spending goes through. All of those projects will be completed on time and budget.*

212 Hon. D. Davis MLC, Minister for Health, 2011-12 budget estimates hearing, transcript of evidence, 11 May 2011, p.41

A useful mechanism for controlling the State asset investment would be to include next to the ‘remaining expenditure’ column in Budget Paper No.4, a new column that provides an estimate of the year in which each project will be completed and an estimate of the timing as to when funding yet to be allocated will be provided to complete each outstanding stage of the project. The Committee maintains that increasing transparency of information in this regard would be particularly relevant, given the Government’s acknowledgement that *‘capital investment initiatives are rarely static and it can be expected that some rescheduling will occur over the course of the year’*.<sup>213</sup>

**Recommendation 32: To provide a more comprehensive publication for informing the Parliament and the community about the remaining expenditure connected with asset projects which is yet to be funded, the Department of Treasury and Finance disclose in the budget papers an estimate for each asset project of when:**

**(a) the project is planned to be completed; and**

**(b) funds are to be allocated to fully fund the project.**

Relatedly, the Government has indicated that it is still yet to provide funding for \$1.3 billion worth of asset initiatives that it committed to prior to the 2010 election. The budget papers state that the remaining commitments will be fully funded in future budgets during this term of government.<sup>214</sup>

The Committee notes in this context that the Government has provided \$2.7 billion in the 2011-12 Budget to be spent on asset projects between 2012-13 to 2014-15 that have not yet been specified. This provision is made up of \$394.3 million for 2012-13, \$489.1 million for 2013-14 and \$1.9 billion for 2014-15.<sup>215</sup> This provision is more than double the amount provided in the 2010-11 Budget (\$1.2 billion).<sup>216</sup> This contingency provision is discussed further in Section 5.6.2 below.

### ***Expertise of school principals to manage asset investment projects, and probity arrangements around awarding contracts***

An election commitment of the Government was that Victorian schools and principals would be given control over major asset projects.<sup>217</sup> The Committee notes that the Department of Education and Early Childhood Development plans on incurring around \$720 million on asset projects during 2011-12 with an estimated \$257 million to be expended in subsequent years.<sup>218</sup>

213 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, p.1

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

215 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.31

216 Budget Paper No.2, *2010-11 Strategy and Outlook*, May 2010, p.44

217 Hon. M. Dixon MP, Minister for Education, 2011-12 budget estimates hearing, transcript of evidence, 11 May 2012, p.18

218 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, p.9

At the budget estimates hearing, the Committee inquired about:

- the processes that are planned to be implemented to equip school principals with the expertise to oversee and manage asset projects; and
- the probity arrangements to be established to ensure that the process for the awarding of contracts will be transparent and the contracts will be allocated on the basis of value for money.

In relation to the *Building the Education Revolution* asset projects, the Minister for Education explained that, ‘*We have seen templates and buildings that are just not working the way they were expected to work. We have seen massive cost overruns. We have seen time lines actually blown out.*’<sup>219</sup> The Minister informed the Committee that for the remaining *Building the Education Revolution* projects and subsequent asset works, schools will have the option of managing the projects themselves, running the project in partnership with the Department or requesting the Department to manage it centrally.<sup>220</sup>

The Minister explained that task forces and consultation groups are working out an appropriate process and said that it is not only about trusting schools to do the right thing, but also about equipping schools with the necessary training if they elect to be involved in delivering the asset works program.<sup>221</sup> Accountability measures will be built in to the new process. The Minister stated that:<sup>222</sup>

*I am starting from the premise that I trust the principals ... we will put in place all the probity arrangements and all the education and training of those principals and schools communities; the school councils and school boards will be part of that.*

The Committee maintains that, as large sums of public funds may potentially be at risk when control over major asset projects is assigned to Victorian schools and principals, it will be important that a sound procurement framework is implemented to minimise such risks when responsibility is devolved in this way. As part of such a framework, the Committee believes there is an integral need for public sector managers overseeing these projects to possess appropriate skills and expertise in this field.

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219 Hon. M. Dixon MP, Minister for Education, 2011-12 budget estimates hearing, transcript of evidence, 11 May 2012, p.19

220 *ibid.*

221 *ibid.*

222 *ibid.*, p.20

**Recommendation 33:** In relation to the initiative to devolve control over major capital works to Victorian schools and school principals, the Department of Education and Early Childhood Development:

- (a) develop a risk management plan to cover the risks involved in implementing this initiative, including the need for a strong corporate governance function;
- (b) disclose the cost of administering the initiative, including the provision of training; and
- (c) arrange for individual schools to report the additional costs incurred in the procurement function, as well as the benefits derived.

#### **5.3.4 Major asset initiatives**

The asset investment initiatives with a TEI greater than \$50 million that have been approved by the Government in 2011-12 are shown in Table 5.7. The Committee notes that the larger asset investments occur in the areas relating to health, education, transport and emergency services. Further comment about asset project commitments to be met in future budgets, such as those that relate to the Bendigo Hospital, is contained in Section 5.2.2 of this chapter.

**Table 5.7: Large asset investment initiatives released in the 2011-12 Budget**

| Department                                | Initiative   | Total estimated investment<br>(\$ million) | 2011-12 Budget<br>(\$ million) | Funding approved over the forward estimates to 2014-15<br>(\$ million) | Additional funding committed to be approved in future budgets<br>(\$ million) |
|---|--|--|--------------------------------|--|---|
| <b>Election commitments</b>               |  |  |                                |  |   |
| Transport                                 | <i>40 New Trains for Melbourne Commuters — Stage 1</i> | 210.4                                      | 37.2                           | 173.2  | –   |
| Health                                    | <i>Bendigo Hospital (expanded)</i>                     | 102.0                                      | –                              | 20.5   | 81.5  |
| Justice                                   | <i>Bushfire Response — Emergency Services</i>          | 62.7                                       | 62.7                           | –  | –   |
| Health                                    | <i>Rural Capital Support Fund</i>                      | 56.0                                       | 5.0                            | 51.0   | –   |
| Transport                                 | <i>Koo Wee Rup Bypass</i>                              | 50.0                                       | 2.5                            | 47.5   | –   |
| <b>Other asset investment initiatives</b> |  |  |                                |  |   |
| Transport                                 | <i>Nation Building Program — Roads Projects</i>        | 142.6                                      | 27.0                           | 115.6  | –   |
| Education and Early Childhood Development | <i>New School Construction and Land Acquisition</i>    | 55.8                                       | 34.5                           | 21.3   | –   |

Source: Budget Paper No.3, 2011-12 Service Delivery, May 2011, Chapters 1 and 2

The Committee offers the following comments on various matters relating to the above asset investment initiatives.

### ***Bendigo Hospital (expanded)***

The 2011-12 Budget announces a \$102.0 million TEI for expanding the scope of the Bendigo Hospital redevelopment. This project is designed to deliver an Integrated Regional Cancer Centre, a five-bed mother-baby unit, a mental health inpatient facility, expanded educational facilities and an enhanced information and communication technology capability. The Committee notes that spending of \$20.5 million on the expanded scope is to commence in the last year of the forward estimates, 2014-15.<sup>223</sup>

### ***Rural Capital Support Fund***

The 2011-12 Budget provides funding of \$56.0 million over four years (\$5.0 million in 2011-12) to strengthen and sustain existing rural and regional health services through the

223 Budget Paper No.3, 2011-12 Service Delivery, May 2011, pp.41-2

upgrade of their facilities. At the budget estimates hearing into the Health portfolio, the Minister for Health advised the Committee that the *Rural Capital Support Fund* provides smaller country health services with the opportunity to access funding for smaller capital projects in order to respond to demand pressures. The Minister indicated that, while these redevelopments may not be major, this funding may make a significant difference in the ability of these country health services to deliver their services.<sup>224</sup>

As is the case with the larger asset projects, the Committee considers that it is equally important for these smaller asset projects, which as the Minister advised could be a \$300,000 project or a \$1 million project, to be well managed by competent officers so that they are brought in on time and within budget. The Department of Health needs to be ultimately accountable for the efficient and effective use of moneys provided through the *Rural Capital Support Fund* and should ensure that a central monitoring regime is in place to oversee the development of asset projects that are to be administered by the smaller country health services.

**Recommendation 34:** The Department of Health implement a monitoring regime to oversee the development of asset projects undertaken by the smaller country health services and funded through the *Rural Capital Support Fund*.

**Recommendation 35:** The Department of Health report in the latter years of the forward estimates on the use of moneys provided to the smaller country health services through the *Rural Capital Support Fund*, including the difference that such funding has made to the delivery of health services in country Victoria.

### ***Bushfire Response – Emergency Services***

Funding of \$62.7 million is provided in the 2011-12 Budget for the first stage of the Government's commitment to enhance the capacity of emergency services to respond to bushfires. This funding, which is for 2011-12, is to enable 60 fire stations to be upgraded and 101 fire-fighting vehicles to be purchased as part of the Government's commitment to upgrade more than 250 stations and purchase additional fire fighting equipment over the first term of government.<sup>225</sup> At the budget estimates hearing with the Minister for Police and Emergency Services, the Committee was advised that, in terms of the composition of the 101 fire-fighting vehicles to be purchased by the Country Fire Authority, there are to be 74 light tankers, 20 heavy tankers and seven other special appliances. The Committee heard that, while the first year of funding has been allocated in the 2011-12 Budget, the four-year commitment for the remaining period will be determined in due course.<sup>226</sup>

224 Hon. D. Davis MLC, Minister for Health, 2011-12 budget estimates hearing, transcript of evidence, 11 May 2011, p. 33

225 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.55, 59

226 Hon. P. Ryan MP, Minister for Police and Emergency Services, 2011-12 budget estimates hearing, transcript of evidence, 12 May 2011, pp.20-1

## 40 New Trains for Melbourne Commuters — Stage 1

The 2011-12 Budget provides \$210.4 million (\$37.2 million in 2011-12; \$108.9 million in 2012-13; and \$64.3 million in 2013-14) for the immediate purchase of seven X'Trapolis trains as Stage 1 of a rolling stock procurement program for 40 new trains.<sup>227</sup> According to the Minister for Public Transport, these trains are to be running on the network in 2014, while design and planning would commence for the manufacture of the remaining 33 high-capacity trains.<sup>228</sup> At the budget estimates hearing into the Public Transport portfolio, the Committee was informed by the Minister that:<sup>229</sup>

*As well as making the network safer we are also making the network more reliable, and we are doing this by buying new trains. Last month I welcomed the arrival of the 20th X'Trapolis train to Newport, the first of 19 to be assembled in Ballarat. A further 18 will enter the network throughout 2011 and 2012. X'trapolis trains are very reliable, with only a small number of incidents per kilometre of travel. By increasing the number of trains available Metro has greater flexibility in managing peak hour demands, and it is in the peak hour when commuters are being inconvenienced the most by delayed trains and by crowded trains. Of course in addition to the order of 38 trains the Baillieu government is committed to purchasing a further 40 new trains for Melbourne commuters, including funding seven new trains in this budget.*

The Committee will be interested in examining, as part of future financial and performance outcomes inquiries, the impact that the rolling stock procurement program is having on enhancing the performance of the metropolitan train network. Disclosure of timelines as to when the new trains are to be progressively introduced onto Melbourne's transport network would enhance accountability.

**Recommendation 36: To enhance accountability, the Department of Transport release a timetable disclosing when new trains are to be progressively running on Melbourne's transport network.**

### Koo Wee Rup Bypass

A total of \$50.0 million over four years is provided in the 2011-12 Budget for the Koo Wee Rup Bypass. This project is designed to provide relief for the local community from congestion and access difficulties. Improving travel and safety for through-traffic are other outcomes that are planned to be derived from this project.<sup>230</sup>

### New School Construction and Land Acquisition

The 2011-12 Budget provides \$55.8 million for new school construction and land acquisition

227 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.81, 85

228 Hon. T. Mulder MP, Minister for Public Transport, 'Coalition delivers \$403 million to get back to basics and fix public transport', media release, 3 May 2011

229 Hon. T. Mulder MP, Minister for Public Transport, 2011-12 budget estimates hearing, transcript of evidence, 10 May 2011, pp.4-5

230 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.85, 88

in order to enable the Government to meet urgent demand for new schools in major growth areas.<sup>231</sup> As announced by the Minister for Education, the Government is ‘*investing in new schools and buying land in growth areas and estates to pave the way for future schools and ensure key education infrastructure will be available where and when it is needed*’.<sup>232</sup>

Disclosure of timelines as to when these future schools are to be progressively completed in the growth areas would enhance accountability.

**Recommendation 37: To enhance accountability, the Department of Education and Early Childhood Development release a timetable disclosing when the construction of new schools in major growth areas is to be completed.**

### ***Nation Building Program — Roads Projects***

In partnership with the Commonwealth, funding of \$142.6 million is provided in the 2011-12 Budget over three years to 2013-14 (\$27.0 million, 2011-12) for:<sup>233</sup>

- the next stage of the M80 upgrade – Edgars Road to Plenty Road (including an estimated expenditure of \$21.8 million for 2011-12); and
- the Western Highway duplication between Burrumbeet and Beaufort (including an estimated expenditure of \$5.2 million for 2011-12).

In relation to the disclosure of the M80 Upgrade in the Government’s published asset investment program for 2011-12, the Committee notes that it appears as one line item ‘*M80 Upgrade (metro various)*’.<sup>234</sup> The Committee is of the view that for an asset project with a TEI of \$900 million (21 per cent of the TEI for all exiting projects for the Department of Transport) that is made up of various components, disaggregating this initiative is warranted, especially when a project with \$2.0 million TEI in comparison (i.e. *Freight Terminal Network – Stage 1 – Somerton and Dandenong*) is individually disclosed under the Department of Transport’s existing projects.<sup>235</sup>

**Recommendation 38: In future budget papers, major asset initiatives be listed separately rather than aggregated.**

## **5.4 Cost pressures associated with high-value and high-risk infrastructure projects**

In forming a backdrop to the 2011-12 Budget, the Treasurer’s *Victorian Economic and Financial Statement* (released in April 2011) stated that Victoria was confronted with

231 *ibid.*, pp.109-10

232 Hon. M. Dixon MP, Minister for Education, ‘Coalition Government makes major investment in school capital works across Victoria’, media release, 3 May 2011

233 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.144; Budget Paper No.4, *2011-12 State Capital Program*, May 2011, p.48

234 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, p.47

235 *ibid.*, p.45

significant program and asset investment cost pressures. The document stated that there are ‘a range of capital projects beset by inadequate management and very significant cost overruns’<sup>236</sup> and the funding required to address these cost pressures was estimated by the Government to be in the order of \$2.0 billion.

A break-down of the major project cost pressures is shown in Table 5.8. The Committee notes there is a lack of disclosure of the individual cost pressures for almost half of these asset investments projects due to ongoing negotiations, which in total comprise \$1.8 billion or 89 per cent of the estimated total cost pressure of \$2.0 billion. The budget papers do not provide any more information about the above projects, with information about total costs still unavailable.<sup>237</sup>

Given the size of the undisclosed cost pressures, especially as the Government indicated in April 2011 that the total estimate of the cost pressure was subject to upward revision following further investigation,<sup>238</sup> the Committee considers that revised estimates should be publicly disclosed after investigatory work has been completed.

**Table 5.8: Major asset project cost pressures**

| Capital project                                | Approved project funding<br>(\$ million) | Estimated additional funding<br>required<br>(\$ million) |
|--|--|--|
| myki   | 1,351.0                                  | nfp <sup>(a)</sup>                                       |
| Regional Rail Link                             | 4,317.0                                  | nfp <sup>(a)</sup>                                       |
| Melbourne Wholesale Market redevelopment       | 218.3                                    | nfp <sup>(a)</sup>                                       |
| Link police database                           | 60.5                                     | nfp <sup>(a)</sup>                                       |
| HealthSMART                                    | 351.4                                    | 80.0   |
| West Gate Bridge rehabilitation                | 240.0                                    | 60.0   |
| Olivia Newton-John Cancer and Wellbeing Centre | 144.0                                    | 45.0   |
| Royal Children’s Hospital ICT                  | -  | 25.0   |
| State Sports Facilities Project                | 53.8                                     | 15.0   |
| <b>Total</b>                                   | <b>6,736.0</b>                           | <b>2,000.0<sup>(b)</sup></b>                             |

Notes: (a) the Government has indicated that estimates are not for publication due to ongoing negotiations  
(b) the Statement notes that this figure indicates the ‘current total cost pressure subject to upward revision following further investigation’

Source: Department of Treasury and Finance, *Victorian Economic and Financial Statement, April 2011*, p.6

**Recommendation 39: The Department of Treasury and Finance disclose in the 2011-12 Budget Update a complete analysis of any significant cost overruns in the State’s asset projects.**

236 Department of Treasury and Finance, *Victorian Economic and Financial Statement*, April 2011, p.1

237 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, pp.3-4

238 Department of Treasury and Finance, *Victorian Economic and Financial Statement*, April 2011, p.6

For those asset investment projects where cost pressures exist, the Committee believes that the impact on planned implementation timeframes should be disclosed in the budget papers.

**Recommendation 40: Where previously planned implementation timeframes developed for the current budget year have had to be revised for projects experiencing cost pressures, the budget papers disclose details relating to these revised timelines and the reasons for the re-scheduling.**

The Treasurer indicated in the Statement that these underlying weaknesses had not previously been fully identified in the budget position.<sup>239</sup> As a lead up to the 2011-12 Budget, the Treasurer foreshadowed in the Statement that:<sup>240</sup>

*Dealing with these challenges will be an important aspect of the 2011-12 and future budgets. This will have implications for levels of spending and key fiscal aggregates.*

*The Government is putting in place a fiscal strategy to deal with these inherited and new challenges ...*

Government action announced in April 2011 to address these cost pressures included:<sup>241</sup>

- reviewing several high-risk projects to ensure that ongoing risk and exposure is mitigated;
- implementing various governance and management processes; and
- ensuring that there is more rigorous oversight by the Department of Treasury and Finance.

The Committee notes that the 2011-12 budget papers outline new processes that the Government considers will increase the level of oversight of the State's major projects. This greater focus is designed to ensure that high-value and high-risk projects (identified through an approved risk assessment tool) are delivered within approved budget and project timelines.<sup>242</sup>

According to the 2011-12 Budget, all new asset projects for the 2011-12 Budget that fall within the high-value and high-risk definition and existing projects that are subject to significant budgetary and/or delivery risks are to be subject to the increased level of oversight.<sup>243</sup> More rigour is to be applied to the development and management of project proposals assessed as high-value and high-risk. This will occur at all stages of development from project and business case development to project implementation and reporting. The Treasurer's sign-off at key project stages, increased central review and the conduct of peer

239 Hon. K. Wells MP, Treasurer, *Victorian Economic and Financial Statement*, April 2011, p.1

240 *ibid.*, p.2

241 *ibid.*, pp.5-6

242 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, pp.2-3

243 *ibid.*

reviews at six project decision points are to be central elements to the enhanced monitoring regime.<sup>244</sup>

The enhanced planning and governance processes are to assist in ensuring, among other things, that:<sup>245</sup>

- projects are more clearly linked to the intended service delivery outcome;
- project costing and timing are more rigorously tested; and
- projects are effectively monitored and managed throughout construction and commissioning.

The Committee notes that, in fulfilling the Government's commitment to increase the transparency of government information, the budget papers disclose the initial high-value and high-risks projects subject to the increased oversight. These are shown in Table 5.9.

**Table 5.9: High-value and high-risk projects subject to increased oversight**

| Asset projects underway<br>(total TEI \$10.25 billion)  | Asset projects in planning/development       |
|---|--|
| Regional Rail Link <sup>(a)</sup>                       | Additional 500 prison beds                   |
| Victorian Desalination Plant                            | Metropolitan level crossings                 |
| Bendigo Hospital  | Emergency services communications            |
| myki <sup>(a)</sup>                                     | Doncaster rail – planning                    |
| Box Hill Hospital redevelopment                         | Melbourne Airport Rail Link                  |
| West Gate Bridge rehabilitation <sup>(a)</sup>          | Lara to Avalon Airport Link                  |
| Melbourne Wholesale Market redevelopment <sup>(a)</sup> | Rowville rail — feasibility study            |
| New trains for Melbourne commuters — stage 1            | Southland Station — planning and development |
| HealthSMART <sup>(a)</sup>                              |  |
| State sports facilities project                         |  |
| LINK police database project <sup>(b)</sup>             |  |

Notes: (a) projects specifically earmarked as facing cost pressures in the 2011-12 Budget

(b) this project has been subject to significant cost and delivery pressures and was recently stopped pending redevelopment of the business case

Source: Budget Paper No.4, 2011-12 State Capital Program, May 2011, pp.3-4

244 ibid.

245 ibid.

The Committee offers various suggestions for greater disclosure regarding the high-value and high-risk infrastructure projects that are to be subject to the enhanced planning and governance processes. These are listed below:

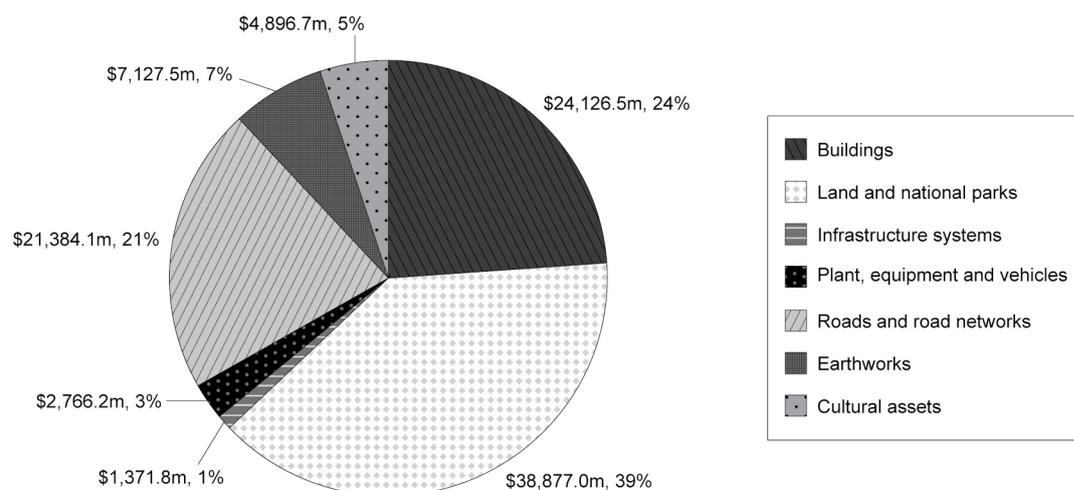
- projects should be disclosed in the order of the degree of risk;
- the budget papers should include performance measures that enable an assessment to be made about whether the high-value and high-risk asset projects are being delivered in line with the approved budget, project timeframes and to an appropriate quality; and
- asset initiatives should be linked to the outcomes that they assist in achieving.

**Recommendation 41: With regard to the high-value and high-risk asset projects that are to be subject to the enhanced planning and governance processes, to achieve greater transparency, the Department of Treasury and Finance develop:**

- (a) **a strategy for listing the high-value and high-risk asset projects in the budget papers in descending order according to the level of risk, as identified by the risk assessment tool applied by the Department;**
- (b) **performance measures that enable an assessment to be made about how these projects are tracking according to the approved budget, established timelines and quality standards of construction; and**
- (c) **clear linkages between these asset initiatives and their intended service delivery outcomes.**

## 5.5 Value of non-financial assets

The estimated value of non-financial assets for the general government sector at 30 June 2012 in the form of land, buildings, infrastructure, plant and equipment is \$100.5 billion. As shown in Figure 5.4, the largest asset categories relate to land and national parks (\$38.9 billion or 39 per cent), buildings – written down value (\$24.1 billion or 24 per cent) and roads and road networks – written down value (\$21.4 billion or 21 per cent).

**Figure 5.4 Breakdown of land, buildings, infrastructure, plant and equipment at 30 June 2012**

Source: *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.33*

An analysis of the estimated expenditure on asset investment projects compared to the estimated value of land, buildings, infrastructure, plant and equipment for the general government sector in the 2011-12 budget year and over the forward estimates to 2014-15 is presented in Table 5.10. As this table shows, the greatest impact of asset-related election commitments and new policy measures approved by the Government in the 2011-12 Budget across the four years to 2014-15 is planned to occur in the 2011-12 budget year and to decrease over each year of the forward estimates.

**Table 5.10: Total approved estimated expenditure on asset investment projects as a proportion of major non-financial assets, general government sector, 2011-12 to 2014-15**

| Period   | 2011-12 Budget<br>(\$ million) | 2012-13 estimate<br>(\$ million) | 2013-14 estimate<br>(\$ million) | 2014-15 estimate<br>(\$ million) |
|--|--------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Estimated expenditure on asset investment projects   | 6,445.8                        | 5,957.4                          | 3,892.2                          | 2,252.3                          |
| Capital provision approved but not yet allocated   | –                              | 394.3                            | 489.1                            | 1,865.0                          |
| Total approved estimated expenditure on asset investment projects  | 6,445.8                        | 6,351.7                          | 4,381.3                          | 4,117.3                          |
| Estimated value of land, buildings, infrastructure, plant and equipment (major non-financial assets) at 30 June            | 100,549.8                      | 104,880.4                        | 111,797.3                        | 115,110.3                        |
| Total approved estimated expenditure on asset investment projects as a proportion of major non-financial assets (per cent) | 6.4                            | 6.1                              | 3.9                              | 3.6                              |

Source: *Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.31;*  
*Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.10*

## 5.6 Funding asset investment

### 5.6.1 Sources of funding

As indicated by the Budget, the Government estimates that the expenditure on approved asset projects in 2011-12 (both initiatives released in the 2011-12 Budget and those released in earlier budgets) will be in the order of \$6.4 billion.<sup>246</sup> The funding sources for this comprise the net result from transactions, non-cash items, borrowings, revenue from asset sales and private finance.<sup>247</sup> A diagrammatic presentation of the various funding sources is outlined in Figure 5.2 of this chapter with comment also made in Chapter 6 of this report. While the application of resources to fund general government sector asset investment is not broken down between State and Commonwealth Government funding in the budget papers, the Government discloses a dissection of funding derived from:<sup>248</sup>

- the net result from transactions;
- non-cash items;
- capital provision approved but not yet allocated;
- proceeds from asset sales;
- borrowings; and
- private finance.

In addition to those details, the Committee considers that it is important to detail the proportion of the estimated asset investment that is to be funded from specific-purpose Commonwealth grants. This is a significant source of funding for asset investment and providing this detail would assist the Parliament and the community in differentiating Victorian Government actions in the Budget from Commonwealth Government decisions.

**Recommendation 42: The Department of Treasury and Finance disclose in the budget papers a break-down of the sources of funding for asset investment projects that distinguishes between Commonwealth specific-purpose funding and State allocations.**

### ***Unapplied previous year appropriation carried over to 2011-12***

The budget papers for 2011-12 include an estimate of the amount of funding that was appropriated under the *Appropriation (2010/11) Act 2010* for expenditure in 2010-11 that was not spent in 2010-11. At the end of the 2010-11 financial year, the actual unapplied appropriations are finalised, approved carryover amounts determined, and the 2011-12 appropriations increased accordingly.<sup>249</sup>

246 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.31

247 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.31; Budget Paper No.4, *2011-12 Capital Program*, May 2011, p.7

248 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.31

249 Appropriation (2011/12) Bill 2011, Explanatory Memorandum, p.1

As unapplied asset funding carried forward to 2011-12 is an indicator of projects falling behind schedule, the Committee was interested in obtaining information from departments about the underlying reasons for funding carryovers and the revised timeframes for when this funding is to be utilised. In those situations where asset projects are not completed on time, the benefits to be derived from such projects are delayed. As such, the Committee stresses the need for asset projects to be completed in accordance with the planned timelines. Information derived from departments is outlined in Table 5.11.

The Committee noted that, of the estimated \$491.2 million from the 2010-11 appropriations to be unspent and carried over to 2011-12 (which compares to a \$710.3 million carry forward estimate from 2009-10 to 2010-11), the following departments have the largest share of the carryover estimate:

- Department of Education and Early Childhood Development – \$201.8 million (41 per cent);
- Department of Transport – \$135.7 million (28 per cent); and
- Department of Sustainability and Environment – \$64.3 million (13 per cent).

The asset projects that had the largest estimates of appropriations unspent in 2010-11 and to be carried over to 2011-12 include the following:

- Department of Education and Early Childhood Development: *Building the Education Revolution program* (Commonwealth funding) – \$86.5 million;
- Department of Education and Early Childhood Development: the school modernisation program – \$48.9 million;
- Department of Sustainability and Environment: foodbowl modernisation projects – \$38.8 million;
- Department of Transport: tram procurement and supporting infrastructure – 29.5 million; and
- Department of Transport: metropolitan rolling stock – \$25.5 million.

The Committee notes that not all departmental responses were as complete as the Committee would have liked, as indicated in Table 5.11. The Committee is of the view that the Department of Premier and Cabinet and Department of Primary Industries should have supplied an estimated break-down of the unapplied appropriation for 2010-11 to be carried over to 2011-12 when requested by the Committee. In addition, the Department of Transport should have provided specific reasons for each project where the appropriation was predicted to be unspent at year end. The omission of this information inhibits the ability of the Committee to effectively scrutinise the budget estimates.

Table 5.11: Break-down of, and reasons for, carryovers of asset funding from 2010-11 to 2011-12

| Project  | Unapplied appropriation in 2010-11 (\$ million) | Estimated carryover to 2011-12 <sup>(a)</sup> (\$ million) | Reasons for carryover from 2010-11   |
|--|---|--|--|
| <b>Department of Education and Early Childhood Development</b>   |   |  |  |
| Building the Education Revolution program (Commonwealth funding) |   | 86.5   | None provided.   |
| Modernisation  |   | 48.9   | Primarily due to revised project timeframes as a result of the impact of the Building the Education Revolution program, ensuring value for money is achieved and the effect of extreme weather conditions.   |
| Regeneration   |   | 18.9   | Predominantly due to the revised implementation timeframes for the Bendigo South East 7-10 Secondary College (SC) (Flora Hill), Weeroona College Stage 2, Knox Regeneration – Bayswater SC, Knox Regeneration – Wantirna College, Beaufort Regeneration, Boort Regeneration and Whitehorse Primary School projects.  |
| New and Replacement Schools                                      |   | 15.3   | Mainly due to construction timeframes being adversely affected by Koori cultural heritage issues at the Glenroy Specialist School site.  |
| Corporate Information Technology program                         |   | 15.3   | Due to revised project timeframes on several projects (\$2.5 million) including the Portfolio and Project Management (PPM) System Infrastructure Upgrade and Support and CASES 21 Development; and software development and enhancement projects (\$12.8 million), including Edugate, Web Content Management System, Enterprise Master Data and the Ultratnet Interface Development. |
| Other  |   | 16.9   | Various reasons supplied.  |
| <b>Departmental total</b>  | <b>201.8</b>                                    | <b>201.8</b>   |  |
| <b>Department of Health</b>                                      | 29.3  | 45.1   | The estimated carryover includes Commonwealth contributions of \$11.6 million. Underlying reasons for estimated unspent cash flows include unforeseen latent soil conditions, inclement weather (such as site flooding), rectification of town planning issues and prolonged planning and design processes.  |
| <b>Department of Human Services</b>                              | 14.9  | nil  | The Department has no unapplied funding carried forward to 2011-12.  |
| <b>Department of Justice (including Victoria Police)</b>         |   |  |  |
| Capital refurbishment of Ararat prison                           |   | 4.0  | Slower deployment in the refurbishment resulting from marginally slower than expected construction and design program from the contractor.   |
| Castlemaine Police Station                                       |   | 3.9  | Some design issues with community groups.  |

| <b>Project</b>  | <b>Unapplied appropriation in 2010-11 (\$ million)</b> | <b>Estimated carryover to 2011-12<sup>(a)</sup> (\$ million)</b> | <b>Reasons for carryover from 2010-11</b>  |
|---|--|--|--|
| CBD (VPOL) Accommodation                                |  | 3.8  | The project is being delivered collaboratively between Victoria Police and the Shared Services Provider (DTF). The Commercial Advisory Report has been completed and presented to representatives of the Department of Treasury and Finance (DTF). At the meeting, DTF directed that Victoria Police first reaffirm the Government's commitment to the project prior to proceeding to the Request for Proposal Phase. Accordingly, the project program has been temporarily suspended until confirmation from the Minister for Police and the Premier have been obtained. This advice remains pending. |
| Other   |  | 11.2   | Various reasons provided.  |
| <b>Departmental total</b>                               | <b>23.0</b>  | <b>22.9</b>  |  |
| <b>Department of Planning and Community Development</b> |  |  |  |
| Broadmeadows Government Services Building               | 8.0  | 8.0  | Due to the global financial crisis and commercial complexity, additional negotiations were required with the short-listed, and later preferred developer, taking 15 months longer than originally expected.  |
| <b>Department of Premier and Cabinet</b>                | 2.1  | Not provided.  | Final carry forward amounts for asset initiatives are not finalised until the end of the financial year and as a result, no exact figures are currently available. In relation to asset carryovers, the funding would be carried over to enable the progression of capital projects which have either been delayed, or have had revised cash flow estimates.   |
| <b>Department of Primary Industries</b>                 | 12.1   | Not provided.  | Information on carry forward for 2011-12 is unable to be provided at this time. Carry forward funding will be finalised in July 2011.  |

| Project   | Unapplied appropriation in 2010-11 (\$ million) | Estimated carryover to 2011-12 <sup>(a)</sup> (\$ million) | Reasons for carryover from 2010-11   |
|---|---|--|--|
| <b>Department of Sustainability and Environment</b>         |   |  |  |
| Foodbowl Modernisation Projects                             |   | 38.8   | The carryforward is due to heavy rainfall and flash flooding that occurred in regional Victoria in January 2011. This has directly impacted the Northern Victoria Irrigation Renewal Project (NVIIP)'s installation of gates to control the flow of water through the irrigation channels and the reshaping and lining of the channels to stop seepage. The delays caused by the flooding cannot be recovered this financial year as they cannot be undertaken during the Winter works period. |
| Water Augmentation Projects – Melbourne to Geelong Pipeline |   | 11.0   | Expenditure has been delayed due to a longer than anticipated time for Barwon Water to obtain the environmental approvals for the project from the Commonwealth Government.  |
| Project 000 Response Program                                |   | 9.6  | The program is awaiting state contract negotiations for pager purchases and the start up of the radio program has been reprioritised to accommodate Royal Commission deliverables.   |
| Other   |   | 4.8  | Unfavourable weather conditions and ongoing repairs to assets damaged by floods have also resulted in minor departmental capital works program delays.   |
| <b>Departmental total</b>                                   | <b>64.3</b>                                     | <b>64.2</b>  |  |
| <b>Department of Transport</b>                              |   |  |  |
| Tram Procurement and Supporting Infrastructure              |   | 29.5   | Factors include:   |
| Metropolitan Rolling Stock                                  |   | 25.5   | <ul style="list-style-type: none"> <li>• project scope and design further refined;</li> </ul>  |
| Metropolitan Train Safety Communications Ssystem            |   | 18.1   | <ul style="list-style-type: none"> <li>• changes in project scheduling following stakeholder consultation and technical issues;</li> </ul>   |
| Doncaster Area Rapid Transit                                |   | 15.3   | <ul style="list-style-type: none"> <li>• extended negotiation and consultation processes; and</li> </ul>   |
| Smart Bus – Yellow Orbital                                  |   | 14.6   | <ul style="list-style-type: none"> <li>• changes to project milestones following awarding of contracts.</li> </ul>   |
| Other   |   | 32.7   |  |
| <b>Departmental total</b>                                   | <b>135.7</b>                                    | <b>135.7</b>   |  |
| <b>Aggregate carryover to 2011-12</b>                       |   | <b>491.2</b>   |  |

Note: (a) in the vast majority of cases, carried forward funding is expected to be fully utilised in 2011-12

Source: departmental responses to the Committee's 2011-12 budget estimates questionnaire

The Committee also considers that the Government's published asset investment program described in Budget Paper No.4 should disclose the major projects that make up the estimates of the unapplied previous year appropriation for each department that is to be carried over to the budget year. Such disclosure would provide an insight into which asset projects have fallen behind schedule necessitating funding to be carried over to the following year.

**Recommendation 43: Future budget papers covering the State Capital Program disclose which projects have contributed to the asset funding carryover to the budget year.**

### **5.6.2 Trends in estimated expenditure on approved projects compared to capital provision approved but not yet allocated, 2009-10 to 2011-12**

Table 5.12 shows that over the past three budgets, the aggregate estimated asset investment over the budget year and forward estimates has declined by \$2.1 billion (or 10 per cent) from \$20.6 billion to \$18.5 billion. In contrast, the value of contingency money provided for asset projects over the forward estimates, which at the time of the budget had not been allocated (described in the budget papers as 'capital provision approved but not yet allocated'), decreased by \$455.8 million or 27 per cent from the provision in the 2009-10 Budget to the 2010-11 Budget, but then increased significantly by \$1.5 billion or 128 per cent from the provision in the 2010-11 Budget to the 2011-12 Budget.

The Committee notes that in the 2011-12 Budget, the Government has provided for this contingency item to increase dramatically in the last year of the forward estimates from \$489.1 million in 2013-14 to \$1.9 billion in 2014-15, an increase of some \$1.4 billion or 381 per cent. The Committee believes that when asset contingencies are planned to increase by such a magnitude between years, the budget papers should disclose the rationale for such increases so that the users of the budget papers can gain an insight into future key asset spends.

**Recommendation 44: The Department of Treasury and Finance explain in the budget papers the reasons for any major movements in contingency provisions over the forward estimates period.**

**Table 5.12: Estimated asset expenditure compared to capital provision approved but not yet allocated, 2009-10 to 2011-12**

| Period                | 2009-10<br>(\$ million) | 2010-11<br>(\$ million) | 2011-12<br>(\$ million) | 2012-13<br>(\$ million) | 2013-14<br>(\$ million) | 2014-15<br>(\$ million) | Total<br>(\$ million) |
|-----------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-----------------------|
| <b>2009-10 Budget</b> |                         |                         |                         |                         |                         |                         |                       |
| Asset expenditure     | 7,183.4                 | 5,668.2                 | 3,965.7                 | 2,582.1                 |                         |                         | <b>20,606.4</b>       |
| Capital provision     | –                       | 262.8                   | 555.0                   | 845.0                   |                         |                         | <b>1,662.8</b>        |
| <b>2010-11 Budget</b> |                         |                         |                         |                         |                         |                         |                       |
| Asset expenditure     |                         | 6,614.4                 | 5,215.8                 | 4,472.8                 | 3,583.1                 |                         | <b>19,886.1</b>       |
| Capital provision     |                         | –                       | 215.0                   | 411.0                   | 581.0                   |                         | <b>1,207.0</b>        |
| <b>2011-12 Budget</b> |                         |                         |                         |                         |                         |                         |                       |
| Asset expenditure     |                         |                         | 6,445.8                 | 5,957.4                 | 3,892.2                 | 2,252.3                 | <b>18,547.7</b>       |
| Capital provision     |                         |                         | –                       | 394.3                   | 489.1                   | 1,865.0                 | <b>2,748.4</b>        |

Source: *Budget Paper No.2, 2009-10 Strategy and Outlook, May 2009, p.49;*  
*Budget Paper No.2, 2010-11 Strategy and Outlook, p.45, May 2010;*  
*Budget Paper No.2, 2011-12 Strategy and outlook, May 2011, p.31*

### 5.6.3 **Asset investment projects procured through Partnerships Victoria arrangements**

The Committee observes that there is a reduced level of disclosure in the 2011-12 budget papers for material connected with asset investment projects procured under Partnerships Victoria arrangements, compared to the 2010-11 Budget Papers. Projects procured through Partnerships Victoria arrangements relate to those projects being delivered through public private partnerships.<sup>250</sup>

As part of the 2010-11 budget papers, the Government divulged the total estimated capital expenditure on the existing Partnerships Victoria projects and listed each project:<sup>251</sup>

- that had been commissioned and was operational;
- that was in the construction phase; and
- where the procurement process was underway.

In contrast, the 2011-12 budget papers only outline the aggregate capital investment, the total number of public private partnerships and the number in each stage of development. The Government has discontinued the practice of naming the particular projects in each category. The Committee believes that, in the interest of enhanced disclosure, this additional detail should be reinstated in the material contained in the budget papers.

250 Budget Paper No.4, *2011-12 State Capital Program*, May 2011, p.8

251 Budget Information Paper No.1, *2010-11 Public Sector Asset Investment Program*, May 2010, p.18

**Recommendation 45:** In relation to asset investment projects provided through public private partnerships, the Department of Treasury and Finance disclose in the budget papers the individual asset investment projects procured through Partnerships Victoria arrangements.

## **5.7 Asset initiatives over \$2 million that have been curtailed, deferred, discontinued or completed as a result of changes in strategic priorities between 2010-11 and 2011-12**

The Department of Transport advised the Committee in May 2011 that the following projects were under review:<sup>252</sup>

- myki;
- Public Transport Safety (Premium Stations);
- Caroline Springs Station;
- South Morang to Mernda Busway;
- Metropolitan Station and Modal Interchange Upgrade Program;
- the Truck Action Plan; and
- Cooper Street Road Widening (Epping).

The Department also drew on the Government's announcement that the Regional Rail Link project would continue, though funding and scheduling of the project had not been finalised.<sup>253</sup>

The Committee also received advice from the Department that the following projects had been cancelled and funding reprioritised:<sup>254</sup>

- Carpooling; and
- Linking Young People to Education and Jobs.

The Committee expects that commentary on these matters will be included in the Department of Transport's annual report for 2010-11.

**Recommendation 46:** The Department of Transport provide commentary in its annual report on the status of all asset projects under review, including details relating to funding and re-scheduling where applicable.

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252 Department of Transport, response to the Committee's 2011-12 budget estimates questionnaire — part B, received 9 May 2011, p.5

253 *ibid.*

254 *ibid.*

## 5.8 Independent Review of State Finances' Interim Report (April 2011)

The Committee notes that the Independent Review of State Finances' *Interim Report* found that:<sup>255</sup>

- on the current trajectory, the level of net asset investment, based on the calculation of the 'net acquisition of non-financial assets', will be insufficient for providing high-quality public services over the medium and longer term (over the four years to 2013-14, net infrastructure investment declines significantly - it turns negative in 2013-14 due to the infrastructure investment of \$2,684.1 million being less than the depreciation expense of \$2,722.6 million in that year);<sup>256</sup>
- over rolling five-year periods, general government 'net infrastructure investment'<sup>257</sup> needs to be at least equal to 0.5 per cent of the historical five-year average of gross state product in order to sustain and enhance the capacity of the Government's asset base to deliver public services;
- the net operating balance for the general government sector should be at least equal to this level of net asset investment within five years without a build up of debt; and
- there is a need to capitalise on technological improvements as they emerge to improve the productivity of public infrastructure.

The Government indicated in the 2011-12 Budget that the Review's target for general government net infrastructure investment (at least equal to 0.5 per cent of the historical average of gross state product over rolling five-year periods) is significantly higher than the levels of investment forecast for 2013-14 and 2014-15. The Budget also foreshadows that asset investment across the forward estimates is to be partially debt-funded in each year to 2014-15.<sup>258</sup> The Committee notes that the Independent Review of State Finances anticipates releasing its Final Report, with advice on how to move towards the recommendations in the *Interim Report*, in February 2012.<sup>259</sup>

255 Independent Review of State Finances, *Interim Report*, April 2011, pp.9, 13, 16-18, 29

256 Department of Treasury and Finance, *2010-11 Victorian Budget Update*, December 2010, p.51

257 'net infrastructure investment' as used by the review is defined as infrastructure 'investment in the General Government (GG) sector net of asset sales over and above the investment required to maintain the service capacity of the existing GG asset base', Independent Review of State Finances, *Interim Report*, April 2011, p.18

258 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, pp.31-2

259 Independent Review of State Finances, *Interim Report*, April 2011, p.31



## CHAPTER 6: GENERAL GOVERNMENT SECTOR REVENUE

### Chapter overview:

- 6.1 General government sector revenue is expected to increase from the latest revised estimate for 2010-11 of \$45.4 billion to an estimate of \$47.4 billion in 2011-12, a rise of \$2.0 billion or 4.4 per cent.
- 6.2 The main drivers of the anticipated revenue growth in 2011-12 are State taxation revenue, sales of goods and services and grants revenue (including GST), which collectively contribute just over \$1.5 billion or three quarters of the predicted increase in revenue collections.
- 6.3 A significant change has occurred in relation to the level of revenue to be derived from GST grants compared to expectations when the 2010-11 Budget Update was released in December 2010. In comparison to previous forecasts, GST has been revised down by \$4.1 billion over five years, which comprises a \$2.5 billion reduction due to changes to the GST relativities and a \$1.6 billion reduction from changes to the national GST pool.
- 6.4 In terms of specific revenue items, around half of the revenue budget is derived from grants from the Commonwealth in the form of GST grants and grants for specific purposes. Taxation accounts for 33 per cent of the State's revenue and the sale of goods and services accounts for an additional 14 per cent.
- 6.5 Revenue policy initiatives in the 2011-12 Budget are expected to raise on average an additional \$120.4 million in revenue per year between 2011-12 and 2014-15 and to forego on average an additional \$188.6 million in revenue over this period.
- 6.6 With regard to major revenue policy initiatives, the budget papers should provide more details of the numbers of targeted recipients of these measures, the expected benefits to be derived and the Government priorities and outcomes that are intended to be advanced by the introduction of these initiatives.
- 6.7 A useful inclusion in the budget papers would involve the presentation in a consolidated form of an explanation of how economic variables have shaped the framing of revenue estimates for major revenue items over the budget year and across the forward estimates.
- 6.8 In comparing the latest revised forecasts for 2010-11 to the 2011-12 Budget, revenue to be derived from specific purpose grants from the Commonwealth for on-passing increased by \$212.0 million or 9.0 per cent, which has been primarily driven by:
- grants provided for non-government schools (an increase of \$103.5 million or 5 per cent); and
  - financial assistance grants to local governments (an increase of \$108.4 million or 29 per cent).

- 6.9** The supporting budget data sets that accompany the budget papers should explain the distribution of Commonwealth funding according to departments with reference as to how this funding can be tracked in the budget papers.
- 6.10** Given that taxation is an essential element of a competitive business environment, the Committee observed that the Government intends to advocate Commonwealth–State tax reforms that are in the long-term interests of Victorians.
- 6.11** Net debt for the general government sector is expected to continue to steadily increase in dollar terms in 2011-12 and 2012-13 and to a lesser extent in 2013-14 and 2014-15, reaching \$23.2 billion by 2015. Projected net debt levels have been revised upwards significantly in the 2011-12 Budget compared to the 2010-11 Budget Update, by an average of 24 per cent between 2011 and 2014 with debt levels now projected to be \$6.3 billion higher in 2014 than had been estimated in the 2010-11 Budget Update.
- 6.12** As a percentage of gross state product, net debt is expected to rise from a revised estimate of 3.7 per cent at 30 June 2011 to 5.0 per cent and 5.9 per cent at 30 June 2012 and 30 June 2013 respectively, and then stabilise at that level for each of the last two years of the forward estimates to 30 June 2015.
- 6.13** The Government plans to rely increasingly on net debt to fund its investment in fixed assets. In contrast to the 2010-11 Budget prediction that around 26 per cent of the Government’s projected \$20.1 billion net investment in fixed assets to 2013-14 was to be funded from net debt, the 2011-12 Budget anticipates that net debt is to be the means of financing a significantly higher proportion of around 46 per cent of the Government’s projected \$20.0 billion net investment in fixed assets to 2014-15.
- 6.14** The total value of tax expenditures provided by the Government that can be costed (including tax-free thresholds) is estimated at \$5.7 billion in 2011-12, increasing to an average of \$6.0 billion over the forward estimates to 2014-15, while the estimated total value of major concessions in 2011-12 is \$1.5 billion.
- 6.15** Electricity concessions as a proportion of the aggregate estimated concessions for 2011-12 have increased from 5.3 per cent as per the 2010-11 Budget to 10.0 per cent in 2011-12. The 2011-12 Budget provides \$445 million for eligible households to benefit from a year-round electricity concession, and to enable water and sewerage concessions to keep pace with increasing costs. This initiative is designed to benefit an estimated 815,000 people across the State.
- 6.16** Ambulance Victoria will need to closely monitor the way in which the inducement to encourage more Victorians to become members, through the membership fee reduction initiative in the 2011-12 Budget, is impacting on the demand for ambulance services and the resultant impact on ambulance response times and health outcomes.

## **6.1 Introduction**

This chapter includes an analysis of selected aspects of general government revenue, which comprises both State-sourced revenue and Commonwealth Government grants. In addition to examining the composition of general government revenue, relevant trends and revenue

policy initiatives contained in the 2011-12 Budget, this chapter covers revenue-related areas associated with net debt, tax expenditures and concessions. It also draws on material provided by departments in response to the Committee's budget estimates questionnaire and certain matters that emerged from the budget estimates hearings process.

The budget papers explain the reasons for movements in revenue items between the revenue estimates for 2011-12 and the latest revised estimates for 2010-11. Commentary on these variances is also contained in the Committee's analysis of key aspects of the Budget in Section 2.3.1 of Chapter 2 above. This chapter therefore keeps this information to a minimum.

The chapter also continues the work of the Committee in examining the presentation of revenue estimates and related items in the budget papers and offers several recommendations about ways in which disclosure could be further enhanced.

In terms of the implementation of recommendations from the previous *Report on the 2010-11 Budget Estimates — Part Three*, tabled in September 2010, the Committee notes that all recommendations have been actioned except in relation to:

- producing a comparison for all major revenue categories between forecast revenue in the budget year to actual revenue figures from two years' prior, rather than only the most recent completed year (Recommendation 16); and
- reporting the effects of the landfill levy in future annual reports by Sustainability Victoria (Recommendation 17).

## 6.2 Analysis of Victoria's general government sector revenue estimates

The Committee has used the following approach to analysing and presenting information relating to Victoria's general government sector revenue estimates:

- comparing the 2011-12 estimates for the largest revenue items to previous estimates (see Table 6.2);
- comparing the percentage break-down of the composition of total revenue according to the largest categories of revenue (see Table 6.3) and significant revenue items (see Figure 6.1) from 2008-09 to 2014-15; and
- comparing the total general government sector revenue as a percentage of gross state product from 2008-09 to 2014-15 (see Table 6.4).

Table 6.2 shows the May 2011 revenue estimates for the major sources of general government sector revenue for 2011-12 in descending order (highest to lowest) compared to:

- the latest revised estimates for 2010-11 as disclosed in the 2011-12 Budget;
- the revised estimates for 2010-11 as disclosed in the 2010-11 Budget Update released in December 2010; and
- the estimates disclosed in the 2010-11 Budget.

As can be seen from Table 6.2, general government sector revenue is expected to increase from the latest revised estimate for 2010-11 of \$45.4 billion to an estimate of \$47.4 billion in 2011-12, a rise of \$2.0 billion or 4.4 per cent. The main drivers of the anticipated revenue

growth in 2011-12 are State taxation revenue, sales of goods and services and grants revenue (including GST), which collectively contribute just over \$1.5 billion or three quarters of the predicted increase in revenue collections.

The largest variance in percentage terms that occurred between the latest revised estimate for 2010-11 and the budget for 2011-12 relates to the item ‘dividends, income tax and rate equivalent revenue’ which has increased by 41 per cent (\$166.9 million). This increase is due to a higher level of dividends expected to be received from government business enterprises, primarily due to timing deferrals of 2010-11 dividends from metropolitan water businesses.<sup>260</sup>

In terms of specific revenue items, the largest revision to the 2010-11 Budget estimate took place with regard to the revenue items relating to grants to be received from the Commonwealth, namely ‘GST grants’ and ‘Specific purpose grants for on-passing’ where the initial estimates for 2010-11 have been revised downwards according to the latest revised estimates in May 2011 by \$488.5 million (4 per cent) and \$413.1 million (15 per cent) respectively.

The Committee’s analysis of the way in which revenue forecasts have changed between last year’s budget and the 2011-12 Budget for the largest revenue items is shown hereunder.

### **6.2.1 GST grants from the Commonwealth Government**

While the increase in GST grants is influenced by a larger national GST pool in 2011-12 compared to the previous year,<sup>261</sup> the Committee notes that the current estimate for 2011-12 GST grants has been revised down by \$811.2 million since the 2010-11 Budget Update from \$11.8 billion to \$10.9 billion.<sup>262</sup> Details of this downward revision and the factors that led to this situation are explained in Section 6.5 of this chapter.

### **6.2.2 Commonwealth Government – Grants for specific purposes**

Grants from the Commonwealth for specific purposes are expected to remain relatively stable in 2011-12 when compared to estimates for the prior year. Further comments about major variations in revenue to be derived from grants for specific purposes that covers a comparison between the latest revised estimates for 2010-11 and the budget for 2011-12 are contained in Section 6.5 of this chapter.

### **6.2.3 Payroll tax**

Payroll tax revenue in 2011-12 is estimated to be \$4.7 billion, an increase of \$319.9 million or 7.2 per cent over the revised 2010-11 estimate. Based on job advertisements and vacancies, it is predicted that there will be a strong labour market with continuing increases in employment and wages.<sup>263</sup> The Committee notes that as from 1 July 2006, payroll tax rates, which are levied on businesses with a taxable total Australian wage bill above an annual tax-free threshold of \$550,000, have progressively reduced.<sup>264</sup> This reduction is shown in Table 6.1.

260 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.157

261 *ibid.*, p.159

262 *ibid.*

263 *ibid.*, p.149

264 State Revenue Office, ‘Payroll Tax Rates’, <[www.sro.vic.gov.au/sro/SRONav.nsf/childdocs/](http://www.sro.vic.gov.au/sro/SRONav.nsf/childdocs/)>, accessed 8 July 2011

**Table 6.1: Reduction in payroll tax rates as from 2006**

| Period                          | Percentage reduction in the payroll tax rate |
|---------------------------------|--|
| 1 July 2006 to 31 December 2006 | 5.15   |
| 1 January 2007 to 30 June 2008  | 5.05   |
| 1 July 2008 to 30 June 2010     | 4.95   |
| 1 July 2010 onwards             | 4.9  |

Source: State Revenue Office, 'Payroll Tax Rates', <[www.sro.vic.gov.au/sro/SROnav.nsf/childdocs/](http://www.sro.vic.gov.au/sro/SROnav.nsf/childdocs/)>, accessed 8 July 2011

Although the budget papers indicate at a high level the assumptions underpinning the assessment that payroll tax will increase by \$319.9 million in 2011-12, the Committee considers that there would be value in the budget papers detailing and quantifying these assumptions so as to provide more transparency around this estimate.

**Recommendation 47: The Department of Treasury and Finance quantify in the budget papers the assumptions factored into the calculation of the payroll tax revenue budget compared to the previous year.**

#### 6.2.4 Land transfer duty

Land transfer duty revenue for 2011-12 is anticipated to be in the order of \$3.8 billion, a decrease of \$135.1 million or 3.5 per cent compared to the most recent revised estimate for 2010-11. This decline is attributable to:<sup>265</sup>

- the stabilisation of the residential property market, which has been influenced by interest rate rises that commenced in the second half of 2009, an easing in first home owner demand and concerns about housing affordability; and
- the introduction of new concessional policy measures (see Section 6.9 of this chapter for further details).

The Committee notes that the stabilisation of the residential property market is partly offset by an upturn in the commercial and industrial property sectors.<sup>266</sup>

265 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, pp. 148, 152

266 *ibid.*

## 6.2.5 Taxes on insurance

Revenue expected to be generated from taxes on insurance is estimated to amount to around \$1.6 billion in 2011-12, an increase of \$155.9 million compared to the latest revised estimate for the prior year. This increase is predominately due to increased revenue to be derived from the following sources:<sup>267</sup>

- an increase in non-life insurance revenue of \$61.4 million, which reflects higher domestic insurance on account of rising global risks from natural disasters and higher volume due to growth in the economy; and
- an increase in insurance contributions by insurance companies to fire services of \$88.0 million, which is driven, in part, by incremental implementation of recommendations emanating from the 2009 Victoria's Bushfires Royal Commission final report.

**Table 6.2: Estimates for major general government sector revenue items for 2011-12 compared to the latest revised estimates for 2010-11, the 2010-11 Budget Update and 2010-11 Budget**

| Major revenue items                          | 2010-11 budget | 2010-11 budget update revised estimate, issued December 2010 | 2010-11 latest revised estimate, issued May 2011 | 2011-12 budget | Variation from 2010-11 latest revised estimate to 2011-12 Budget | Percentage change from 2010-11 latest revised estimate to 2011-12 Budget |
|--|----------------|--|--|----------------|--|--|
|  | (\$ million)   | (\$ million)   | (\$ million)                                     | (\$ million)   | (\$ million)   | (per cent)   |
| <b>Taxation</b>                              |                |  |  |                |  |  |
| Taxes on employers' payroll and labour force | 4,258.5        | 4,397.2  | 4,415.5  | 4,735.4        | 319.9  | 7.2  |
| Land transfer duty                           | 3,672.4        | 3,821.3  | 3,902.4  | 3,767.3        | -135.1   | -3.5   |
| Land tax                                     | 1,362.4        | 1,377.1  | 1,379.7  | 1,342.6        | -37.1  | -2.7   |
| Gambling taxes – Electronic gaming machines  | 1,018.6        | 992.4  | 1,000.3  | 1,031.0        | 30.7   | 3.1  |
| Motor vehicle registration fees              | 887.0          | 905.2  | 917.4  | 960.8          | 43.4   | 4.7  |
| Duty on vehicle registrations and transfers  | 561.7          | 588.1  | 594.1  | 607.1          | 13.0   | 2.2  |

267 *ibid.*, p.155

| Major revenue items                                      | 2010-11 budget  | 2010-11 budget update revised estimate, issued December 2010 | 2010-11 latest revised estimate, issued May 2011 | 2011-12 budget  | Variation from 2010-11 latest revised estimate to 2011-12 Budget | Percentage change from 2010-11 latest revised estimate to 2011-12 Budget |
|--|-----------------|--|--|-----------------|--|--|
|  | (\$ million)    | (\$ million)   | (\$ million)                                     | (\$ million)    | (\$ million)   | (per cent)   |
| Gambling taxes – Private lotteries                       | 384.5           | 374.4  | 364.4  | 383.4           | 19.0   | 5.2  |
| Gambling taxes – Casino                                  | 170.9           | 162.6  | 157.1  | 175.0           | 17.9   | 11.3   |
| Gambling taxes – Racing                                  | 139.3           | 137.4  | 132.1  | 140.3           | 8.2  | 6.2  |
| Taxes on insurance <sup>(a)</sup>                        | 1,478.1         | 1,473.8  | 1,475.3  | 1,631.2         | 155.9  | 10.6   |
| Other taxes  | 504.4           | 513.3  | 539.0  | 613.8           | 74.8   | 13.9   |
| <b>Sub-total (taxation)</b>                              | <b>14,437.8</b> | <b>14,742.8</b>  | <b>14,877.3</b>                                  | <b>15,387.9</b> | <b>510.6</b>   | <b>3.4</b>   |
| <b>Grants</b>  |                 |  |  |                 |  |  |
| GST grants   | 11,142.7        | 10,978.8   | 10,654.2   | 10,944.8        | 290.6  | 2.7  |
| Specific purpose grants for on-passing                   | 2,768.2         | 2,308.9  | 2,355.1  | 2,567.1         | 212.0  | 9.0  |
| Grants for specific purposes                             | 8,868.6         | 8,945.8  | 8,861.6  | 8,892.1         | 30.5   | 0.3  |
| Other contributions and grants                           | 113.7           | 113.7  | 126.5  | 112.7           | -13.8  | -10.9  |
| <b>Sub-total (grants)</b>                                | <b>22,893.1</b> | <b>22,347.1</b>  | <b>21,997.4</b>                                  | <b>22,516.6</b> | <b>519.2</b>   | <b>2.4</b>   |
| <b>Dividends, income tax and rate equivalent revenue</b> | <b>504.9</b>    | <b>519.6</b>   | <b>408.0</b>                                     | <b>574.9</b>    | <b>166.9</b>   | <b>40.9</b>  |
| <b>Sales of goods and services</b>                       | <b>5,847.4</b>  | <b>5,868.2</b>   | <b>5,969.9</b>                                   | <b>6,465.8</b>  | <b>495.9</b>   | <b>8.3</b>   |
| <b>Fines</b>   | <b>559.4</b>    | <b>587.1</b>   | <b>521.5</b>                                     | <b>545.1</b>    | <b>23.6</b>  | <b>4.5</b>   |
| <b>Other revenue</b>                                     | <b>1,516.6</b>  | <b>1,503.0</b>   | <b>1,664.2</b>                                   | <b>1,948.8</b>  | <b>284.6</b>   | <b>17.1</b>  |
| <b>Total</b>   | <b>45,759.3</b> | <b>45,567.7</b>  | <b>45,438.3</b>                                  | <b>47,439.2</b> | <b>2,000.9</b>   | <b>4.4</b>   |

Note: (a) the taxation revenue category 'taxes on insurance' was not broken down into its component items in the 2010-11 Budget Update

Sources: prepared by the Committee's secretariat from information drawn from the Department of Treasury and Finance's 2010-11 Victorian Budget Update, December 2010, pp.43-5 and Budget Paper No.5, 2011-12 Statement of Finances, May 2011, pp.9, 148-62

Table 6.3 shows the Committee's analysis of the component elements of the State's revenue base for the general government sector from 2008-09 to 2014-15. The analysis reveals that as a proportion of State revenue:

- taxation and grant revenue will continue to contribute around 80 per cent of the total revenue budget for the general government sector;
- except for 2013-14, grants from the Commonwealth show a steady decline since 2009-10;
- when compared to the revised estimate for 2010-11, interest revenue is expected to increase slightly in 2011-12 and 2012-13 and then remain stable over the remainder of the forward estimates to 2014-15;
- revenue derived from dividends, income tax and rate equivalent revenue shows modest fluctuations over the period; and
- from 2009-10, revenue derived from the sales of goods and services is predicted to increase in 2010-11 and 2011-12 and then drop marginally to 2014-15.

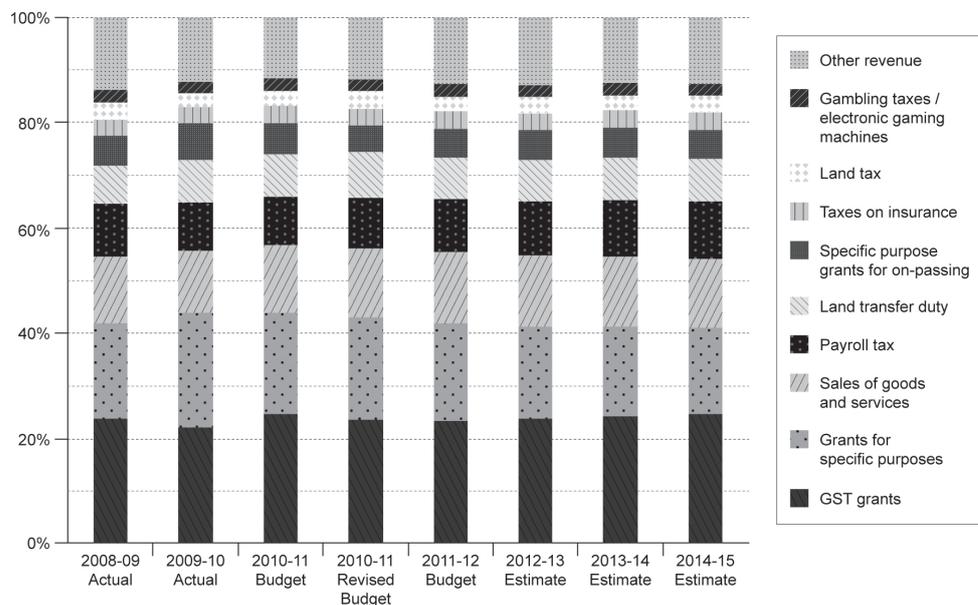
**Table 6.3: Composition of estimated general government sector revenue according to the main revenue categories 2008-09 to 2014-15**

| Revenue category                                  | 2008-09 actual | 2009-10 actual | 2010-11 budget | 2010-11 revised estimate | 2011-12 budget | 2012-13 estimate | 2013-14 estimate | 2014-15 estimate |
|---|----------------|----------------|----------------|--------------------------|----------------|------------------|------------------|------------------|
|   | (%)            | (%)            | (%)            | (%)                      | (%)            | (%)              | (%)              | (%)              |
| Taxation  | 32.2           | 30.8           | 31.6           | 32.7                     | 32.4           | 32.8             | 31.8             | 33.6             |
| Interest  | 1.0            | 1.0            | 0.8            | 0.8                      | 1.2            | 1.7              | 1.7              | 1.6              |
| Grants  | 48.4           | 50.9           | 50.0           | 48.4                     | 47.5           | 46.9             | 48.8             | 46.8             |
| Dividends, income tax and rate equivalent revenue | 1.0            | 1.1            | 1.1            | 0.9                      | 1.2            | 1.3              | 1.0              | 1.4              |
| Sales of goods and services                       | 12.6           | 11.8           | 12.8           | 13.1                     | 13.6           | 13.5             | 13.3             | 13.1             |
| Other current revenue                             | 4.8            | 4.5            | 3.8            | 4.0                      | 4.0            | 3.8              | 3.2              | 3.5              |
| <b>Total</b>                                      | <b>100.0</b>   | <b>100.0</b>   | <b>100.0</b>   | <b>100.0</b>             | <b>100.0</b>   | <b>100.0</b>     | <b>100.0</b>     | <b>100.0</b>     |

Source: *Financial Report, 2008-09, October 2009, p.18;*  
*Budget Paper No.4, 2010-11 Statement of Finances, May 2010, p.205;*  
*Budget Paper No.5, 2011-12 Statement of Finances, May 2011, pp.9, 145*

Figure 6.1 highlights that in analysing the composition of the State's revenue budget each year according to major revenue items, the break-down tends to remain relatively stable from one year to the next. Around half of the revenue budget is derived from grants from the Commonwealth in the form of GST grants and grants for specific purposes, as well as from sales of goods and services.

**Figure 6.1 Composition of estimated percentage share of general government sector revenue according to the main revenue items 2008-09 to 2014-15**



Source: *Financial Report, 2008-09, October 2009, p.18;*  
*Budget Paper No.4, 2010-11 Statement of Finances, May 2010, pp.203-17;*  
*Budget Paper No.5, 2011-12 Statement of Finances, May 2011, pp.145-59*

The 'sales of goods and services' is estimated to provide \$6.5 billion of revenue in 2011-12.<sup>268</sup> This revenue item includes regulatory fees, the inter-sector capital asset charge and proceeds from the provision of services such as water, TAFEs, schools, hospitals and ambulances.<sup>269</sup>

As shown in Table 6.3 and Figure 6.1, this revenue item comprises 13.6 per cent of the State's revenue for 2011-12. This is therefore a material revenue category. The estimated revenue for

268 *ibid.*, p.158

269 *ibid.*, p.25; Budget Paper No.4, *2010-11 Statement of Finances*, May 2010, p.215; Budget Paper No.4, *2009-10 Statement of Finances*, May 2009, p.317

2011-12 is broken down into its component parts in the budget papers,<sup>270</sup> but, unlike the other major revenue categories, these components are not compared to the prior actual revenue raised and the revised estimate for the previous year.<sup>271</sup> The Committee considers that such disclosure should be made, so that this category is consistent with the presentation adopted for the other main revenue categories of taxation, grants and other revenue.

**Recommendation 48:** For the revenue category ‘sales of goods and services’, the Department and Treasury and Finance disclose in the budget papers a comparison of the current budget for its component items to actual revenue for the most recent year and the revised estimate for the prior year.

Table 6.4 highlights that the higher expected growth in revenue for 2011-12 compared to the previous year is reflective of the expected rise in growth in nominal gross state product (GSP) over this same period. Nominal gross state product figures have been drawn from the macroeconomic aggregates which have been included in the budget papers for the first time in 2011-12. Forecasts of nominal gross state product are used in the budget papers to express key financial aggregates in relation to the size of the economy. Further comment relating to changes in the economic climate and the effect on revenue and GSP is included in Section 6.4 of this chapter.

### 6.3 Policy initiatives in the 2011-12 Budget

The Committee notes that, according to the Government’s 2011 *Victorian Families Statement*, the Government stated that ‘*When budgets are already strained, paying Government taxes and charges can seem especially rough...The Government will be working to help ease the pressure, and launching an independent review of our finances.*’<sup>272</sup>

In keeping with this sentiment, a summary of the major revenue policy initiatives contained in the Budget, the impact on the Budget (as an average over the forward estimates) and the underlying reasons for these initiatives are shown in Table 6.5.

The Committee considers that the revenue initiatives contained in the Budget that have the effect of reducing government charges would be more clearly earmarked as ‘revenue foregone initiatives’ rather than ‘revenue initiatives’ to more clearly differentiate initiatives that increase from those that decrease revenue.

**Recommendation 49:** To assist in better understanding of the impact of policy initiatives in the Budget, the Department of Treasury and Finance classify revenue initiatives that result in revenue foregone to the Government as ‘revenue foregone initiatives’ in the budget papers.

270 Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.25

271 *ibid.*, p.158

272 Victorian Government, 2011 *Victorian Families Statement*, p.9

**Table 6.4: Total general government sector revenue 2008-09 to 2014-15 as a proportion of nominal gross state product**

| Revenue Category  | 2008-09 actual | 2009-10 actual | 2010-11 budget | 2010-11 revised estimate | 2011-12 budget | 2012-13 estimate | 2013-14 estimate | 2014-15 estimate |
|---|----------------|----------------|----------------|--------------------------|----------------|------------------|------------------|------------------|
| Total revenue (\$ billion) <sup>(a)</sup>                               | 39.3           | 44.6           | 45.8           | 45.4                     | 47.4           | 48.8             | 50.3             | 52.2             |
| Percentage change in revenue (%)  | -              | 13.5           | 2.6            | 1.9                      | 4.4            | 2.9              | 3.1              | 3.7              |
| Nominal gross state product (GSP) forecasts (\$ billion) <sup>(b)</sup> | 268.9          | 315.0          | 320.1          | 320.1                    | 337.7          | 354.5            | 372.2            | 390.8            |
| Percentage change in GSP (%)  | -              | 1.6            | 1.7            | 1.7                      | 5.5            | 5.0              | 5.0              | 5.0              |
| Revenue as a proportion of GSP (%)                                      | 14.6           | 14.2           | 14.3           | 14.2                     | 14.0           | 13.8             | 13.6             | 13.4             |

Sources:

(a) Budget Paper No.5, 2011-12 Statement of Finances, pp.9, 145; Financial Reports for the State of Victoria for 2008-09 (p.45) and 2009-10 (p.41)

(b) Department of Treasury and Finance, 'Victorian Budget 2011-12, Macroeconomic indicators, Victorian Nominal Gross State Product Series as at 2011-12 Budget', <[www.budget.vic.gov.au/CA25783300199E40/WebObj/MacroeconomicSeries2011-12Budget/File/MacroeconomicSeries2011-12Budget.xls](http://www.budget.vic.gov.au/CA25783300199E40/WebObj/MacroeconomicSeries2011-12Budget/File/MacroeconomicSeries2011-12Budget.xls)>, accessed 3 August 2011

**Table 6.5: Revenue initiatives contained in the 2011-12 Budget**

| Revenue initiative   | Average revenue gained/(foregone) per year: 2011-12 to 2014-15 (\$ million) | Reason for the initiative  |
|--|---|--|
| <b>Ambulance services</b>  |   |  |
| 50 per cent reduction in ambulance membership fees   | (60.5)  | The purpose of this funding is to provide more affordable access to ambulance services for Victorians. Further comment on this initiative is included in Section 6.9.2 of this chapter.  |
| <b>Housing affordability</b>   |   |  |
| 50 per cent land transfer duty concession for first home buyers of properties valued up to \$600,000 | (111.0)   | Land transfer duty will be cut by 20 per cent in 2011-12, which will be followed by additional 10 per cent cuts on 1 January 2013, 1 January 2014 and 1 September 2014.<br>This initiative aims to improve housing affordability for first home buyers. The Department of Treasury and Finance (DTF) estimates that this policy, which will cost \$444 million in foregone stamp duty revenue over four years, will affect approximately 152,000 transactions over the forward estimates years.  |
| Extend land transfer duty relief for eligible seniors  | (11.3)  | This policy, which will extend the concession threshold from \$440,000 to \$750,000, and for the first time will allow holders of a Commonwealth Seniors Health Card access to the concession, aims to ease the financial burden of stamp duty for seniors who wish to downsize their homes.<br>DTF estimates that this scheme will affect approximately 9,000 transactions over the forward estimates years.  |
| Land transfer duty concession for farmers under 35 years of age                                      | (3.0)   | This initiative intends to address the issue of the ageing labour force of the farming industry and few young people entering the industry.<br>DTF estimates the initiative will affect approximately 2,200 transactions in the forward estimates years.   |
| <b>Reducing the financial burden on small business</b>   |   |  |
| Liquor licence fee reduction   | (2.8)   | This initiative is aimed at reducing liquor licensing fees to ease the financial burden on small business and community clubs that pose a low risk to the community in relation to alcohol-related violence. Fees for approximately 11,000 businesses were halved for the 2011 fee renewal.  |
| Concessional Tax Rate in relation to Wagering Premiums Customers                                     | -   | A concessional tax rate of 10.00 per cent (rather than 19.11 per cent) applies to commissions attributable to 'parimutuel' premium customers. These are defined as customers that bet more than \$3 million in Victorian totalisators within a financial year. This applies from February 2011 until August 2012 when the current wagering licence expires.<br>This initiative is expected to enable the wagering licensee to compete more effectively with interstate operators.<br>DTF expects that the impact on tax revenue will be broadly neutral on the basis that the current wagering licensees' competitiveness will improve as a result of the concessional tax rate. |

| Revenue initiative   | Average revenue gained/(foregone) per year: 2011-12 to 2014-15 (\$ million) | Reason for the initiative  |
|--|---|--|
| <b>Average revenue foregone per year: 2011-12 to 2014-15</b> | <b>(188.6)</b>  |  |
| Enhanced tax compliance                                      | 58.8  | Fifty new staff will be recruited to undertake increased monitoring and enforcement activities by the State Revenue Office from 1 July 2011 to improve taxpayer compliance.  |
| Landfill levy  | 10.8  | The progressive landfill levy rates previously announced by the former Government are to be brought forward by 12 months.<br>Generating waste and disposing of it into landfills is a minor fraction of business and household costs, and is often less expensive than other waste management solutions such as recycling. Although the proportion of recycling and resource recovery has also been increasing, this has not sufficiently offset the increased waste generation to bring an overall decrease in the amount of waste disposed to landfill. A critical element is to influence the economic factors that currently encourage disposal of waste to landfill. The increase in landfill levies is designed to address the substantial price differential between disposing of waste to landfill and sending it to alternative resource recovery facilities, while also providing revenue for capital investment for resource recovery facilities. |
| Reform of land rich duty <sup>(a)</sup>                      | 67.7  | The land rich landscape has changed considerably in Victoria and other states and territories. These changes have been driven by the evolving nature of commercial transactions. The Government will move towards adopting a landholder duty model that will ensure the changes in ownership or control of entities holding land and other property are brought into the stamp duty base. The move to this model will ensure a more consistent treatment of direct and indirect acquisitions of land.  |
| <b>Average revenue gained per year: 2011-12 to 2014-15</b>   | <b>120.4</b>  |  |

Note: (a) this reform will commence on 1 July 2012 so the average is over the three years to 2014-15

Sources: Budget Paper No.3, 2011-12 Service Delivery, May 2011, pp.91-2, 148; and departmental responses to Committee's budget estimates questionnaire

## 6.4 Changes to the economic climate

Changes in economic conditions and outlook influence revenue projections. Examples of economic drivers of major revenue items and their impact on the 2011-12 Budget are outlined in Table 6.6.

**Table 6.6: Major revenue items – fiscal implications of economic factors underpinning the 2011-12 Budget**

| Major revenue item | Examples of economic influences/drivers   | Impacts of economic forecasts on the Budget   |
|--------------------|---|---|
| GST grants         | <ul style="list-style-type: none"> <li>National GST pool</li> <li>GST relativities</li> </ul> | <p>Weaker GST receipts due to slower growth in the national GST pool and a reduction in GST relativities has led to a substantial downward revision to GST grants in 2011-12 compared to what was expected in the 2010-11 Budget Update.</p> <p>However GST grants are forecast to rise in nominal terms in 2011-12 and across the forward estimates.</p>   |
| Payroll tax        | <ul style="list-style-type: none"> <li>Employment</li> <li>Wage growth</li> </ul>             | <p>The Victorian labour market has been strong over 2010-11 (forecast growth of 3.50 per cent), resulting in higher employment growth relative to what was expected in the 2010-11 Budget Update (forecast growth of 2.75 per cent).</p> <p>Growth in employment is expected to moderate in 2011-12, reverting to its long-term trend of around 1.75 per cent and continue at this level over the outyears.</p> <p>Higher wage growth forecasts are consistent with strong wages growth recorded in the first half of 2010-11 (the forecasts for the Wage Price Index in the 2010-11 Budget Update for 2010-11 and 2011-12 of 3.25 and 3.50 per cent respectively have been revised upwards in the 2011-12 Budget to 3.75 for both years with a minor reduction over the outyears).</p> |
| Land transfer duty | <ul style="list-style-type: none"> <li>Housing turnover</li> <li>Interest rates</li> </ul>    | <p>Despite the slight fall in revenue in 2011-12, which is consistent with the moderation in housing turnover due in part to the impact of higher interest rates, land transfer duty is expected to grow by an average of 4.2 per cent a year. Continued population growth and a recovery in commercial transactions should support revenue over the forward estimates.</p>   |

Source: *Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, pp.9-13, 27*

The Committee maintains that the above format would be a useful inclusion in the budget papers for presenting in a summarised consolidated form an explanation of how economic variables have shaped the framing of revenue estimates for major revenue items over the budget year and across the forward estimates. Given that changes in economic outlook have a significant impact on the formulation of the Budget from one year to the next, the Committee was interested in the following statement made by the Government in the *Victorian Economic and Financial Statement* released in April 2011, which demonstrates the nexus between revenue and spending strategies (see Chapter 8 of this report) from a budgetary point of view:<sup>273</sup>

*The medium-term economic outlook means that Victoria's budget strategy should not rely on the prospect of windfall revenue gains. The steep rises in property tax revenue which*

273 Department of Treasury and Finance, *Victorian Economic and Financial Statement*, April 2011, p.3

*characterised the early years of the last decade have subsided and are unlikely to be repeated in the near term.*

*As a result, future patterns of government spending must be consistent with more modest revenue growth. This will require efforts to prioritise between alternative spending options.*

**Recommendation 50: To enhance understanding of the fiscal implications of the predicted economic outlook, the Department of Treasury and Finance present in the budget papers a summary in a tabular form of the economic factors that have influenced the major revenue items.**

## **6.5 Changes in Commonwealth funding**

In discussing variations in Commonwealth funding experienced in framing the Budget for 2011-12 and over the forward estimates to 2014-15, these changes can be presented according to:

- changes between the previous year's funding and the 2011-12 Budget; and
- changes between the forward estimates disclosed in the 2010-11 Budget Update and the estimates that form part of the 2011-12 Budget.

In terms explaining the composition of revenue derived from the Commonwealth, there are three types of grants, namely:

- grants for specific purposes;
- grants for on-passing; and
- general purpose grants (GST grants).

The above grants comprise grants that are of an ongoing nature such as grants received according to the *National Education Agreement* and the *National Healthcare Agreement* and one-off grants such as those that relate to the Commonwealth's *Nation Building – Economic Stimulus Plan*.

### **6.5.1 Specific purpose grants and grants for on-passing**

The Committee notes that, while there is very little change in the total funding to be received in relation to grants for specific purposes of around \$8.9 billion, the largest variations in dollar terms for particular grants are shown in Table 6.7.

**Table 6.7: Major variations in revenue to be derived from grants for specific purposes — comparison between the latest revised forecast for 2010-11 and the 2011-12 Budget**

| Grant  | 2010-11 revised estimate<br>(\$ million) | 2011-12 Budget<br>(\$ million) | Variance<br>(\$ million) | Variance<br>(per cent) |
|--|--|--------------------------------|--------------------------|------------------------|
| <i>National Healthcare Agreement</i>   | 2,921.0                                  | 3,147.3                        | 226.3                    | 7.7                    |
| <i>Nation Building — Economic Stimulus Plan: Nation Building and Jobs Plan</i>                     | 203.2                                    | 63.8                           | -139.4                   | -68.6                  |
| <i>National Partnerships — Early Childhood Education</i>   | 19.3                                     | 59.1                           | 39.8                     | 206.2                  |
| <i>National Partnerships — Elective Surgery Waiting List Reduction Program</i>                     | 63.7                                     | -                              | -63.7                    | -                      |
| <i>National Partnerships — Nation Building-Auslink (Road and Rail)</i>                             | 287.3                                    | 700.7                          | 413.4                    | 143.9                  |
| <i>National Partnerships — Natural Disaster Relief</i>   | 83.6                                     | 515.0                          | 431.4                    | 516.0                  |
| <i>National Partnerships — Regional Rail Link</i>  | 247.0                                    | 448.0                          | 201.0                    | 81.4                   |
| <i>National Partnerships — Water for the Future</i>  | 103.3                                    | 10.9                           | -92.4                    | -89.4                  |
| <i>COAG — National Health and Hospitals Reform — Improving Public Hospital Services</i>            | 251.4                                    | 143.3                          | -108.1                   | -43.0                  |
| <i>Other payments to the States — Housing Affordability Fund</i>                                   | -  | 54.1                           | 54.1                     | -                      |
| <i>Commonwealth Own Purpose Expenses — Highly Specialised Drugs Program — Department of Health</i> | 158.0                                    | 60.0                           | -98.0                    | -62.0                  |

Source: Budget Paper No.5, 2011-12 Statement of Finances, May 2011, pp.161-2

The Committee also notes that revenue to be derived from grants for on-passing increased by \$212.0 million or 9 per cent in 2011-12 compared to the revised estimates for 2010-11.<sup>274</sup> This increase is primarily driven by:<sup>275</sup>

- grants provided for non-government schools under the *National Education Agreement* (an increase of \$103.5 million or 5 per cent); and
- financial assistance grants to local governments (an increase of \$108.4 million or 29 per cent).

The Committee's analysis revealed that, in relation to revenue expected to be generated from 'Other Commonwealth Grants', Table 4.10 in Budget Paper No.5, which presents a comparison between the revised estimates for the previous year and the current budget year with regard to payments for specific purposes and grants for on-passing, does not distinguish between these two categories of grants. From the information presented in Table 4.10, it is

274 Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.159

275 *ibid.*, pp.159, 161-2

also not possible to readily determine which grants are ongoing and which are one-off in nature.

The Committee also notes that no explanation was given surrounding the circumstances that led to the discontinuation of funding in 2011-12 with regard to the *Elective Surgery Waiting List Reduction Program* (see Table 6.7).<sup>276</sup> In contrast, with regard to the *Exceptional Circumstances Interest Rate Subsidy*, the budget papers disclose that:<sup>277</sup>

*The decrease relates to the completion of the ECIRS drought assistance program in Victoria for the areas of exceptional circumstances declaration for Victoria, which ceased by 30 April 2011.*

The Committee considers that it is important that explanations for significant changes in Commonwealth funding are provided in the budget papers so that interested parties can gain an appreciation of changes that are planned to occur to Victoria's revenue streams.

**Recommendation 51:** In terms of the presentation of 'Other Commonwealth Grants' in the budget papers, the Department of Treasury and Finance differentiate between:

- (a) grants for specific purposes and grants for on-passing; and
- (b) grants that are ongoing and those that are one-off in nature.

**Recommendation 52:** The Department of Treasury and Finance explain in the budget papers all significant movements in Commonwealth funding between the latest revised estimate and the current Budget.

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276 *ibid.*, p.166

277 *ibid.*

## 6.5.2 General purpose grants (GST grants)

**Table 6.8: Movements in GST grants, 2008-09 to 2011-12**

| Year                     | GST grants<br>(\$ million) | Variance<br>(\$ million) | Variance<br>(per cent) |
|--------------------------|----------------------------|--------------------------|------------------------|
| 2008-09 actual           | 9,319.0                    | -                        | -                      |
| 2009-10 actual           | 10,043.3                   | 724.3                    | 7.8                    |
| 2010-11 Budget           | 11,142.7                   | 1,099.4                  | 10.9                   |
| 2010-11 revised estimate | 10,654.2                   | -488.5                   | -4.4                   |
| 2011-12 <sup>(a)</sup>   | 11,756.0                   | 1,101.8                  | 10.3                   |
| 2011-12 Budget           | 10,944.8                   | -811.2                   | -6.9                   |

Note: (a) 2011-12 forecast in the 2010-11 Budget Update released in December 2010

Sources: Budget Paper No.4, 2010-11 Statement of Finances, May 2010, p.217;  
Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.159

As shown in Table 6.8, in relation to 2011-12, GST grants have been revised downwards by \$811.2 million from \$11,756.0 million as forecast in the 2010-11 Budget Update<sup>278</sup> to \$10,944.8 million (2011-12 Budget)<sup>279</sup>, a reduction of 6.9 per cent. This downward revision is attributed in the Budget to:<sup>280</sup>

- a reduction in GST relativities whereby Victoria's share of the total GST pool is to be reduced from 23.4 per cent in 2010-11 to 22.5 per cent in 2011-12, which will result a reduction of \$498 million in GST grants for Victoria in 2011-12; and
- slower growth in the national GST pool than was envisaged at the time of the 2010-11 Budget Update, which will result in a reduction in Victoria's GST grants by \$313 million in 2011-12.

The Committee notes that the downward revision of \$811.2 million in GST grants has contributed to the estimated net result for 2011-12 of \$823.1 million, as predicted in the 2010-11 Budget Update, being reduced to \$140.4 million. This is discussed further in Chapter 7 of this report.

The above-mentioned downward revision reverses the previous forecasts for GST revenue. According to the 2010-11 Budget, annual average growth in GST revenue of \$604 million or 5.1 per cent between 2010-11 and 2013-14 was predicted, which was based on anticipated growth in the national GST pool.<sup>281</sup> As reflected in the 2010-11 Budget Update, GST revenue was expected to grow at a higher rate by around 7.0 per cent in 2011-12 and 2012-13, before slowing to 3.8 per cent in 2013-14.<sup>282</sup> In the 2011-12 Budget, these growth figures have

278 2010-11 Victorian Budget Update, December 2010, p.44

279 Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.26

280 *ibid.*, pp.159-60

281 Budget Paper No.2, 2010-11 Strategy and Outlook, May 2010, p.36

282 2010-11 Victorian Budget Update, December 2010, p.16

been revised downwards from 5.7 per cent (2011-12 to 2012-13) to 4.6 per cent (2012-13 to 2013-14) and then increasing to 5.0 per cent (2013-14 to 2014-15).<sup>283</sup>

The Committee also notes that this reversal can be contrasted with the situation in 2010-11 where GST grant payments are expected to be \$10,654.2 million (the revised estimate as at May 2011), an increase of \$610.9 million or 6.1 per cent compared to 2009-10 (see Table 6.8). The Committee appreciates that the Commonwealth Grants Commission (CGC) updates its relativities annually to reflect movements in data which determines the distribution of GST grants between the states and territories. The Committee also notes that:<sup>284</sup>

*The Prime Minister announced a review of GST distribution and the appropriate form of horizontal fiscal equalisation on 30 March 2011. The media release announcing the Review (which reflects some of Victoria's considerable concerns with the CGC's current methodology) states that the Review seeks to provide a simpler, fairer, more predictable and more efficient distribution of GST to the states and territories.*

*The review will provide an interim report to the Commonwealth Treasurer by February 2012 and a final report by September 2012. The GST relativities for 2011-12 and 2012-13 will be based on the current methodology and not be affected by the review.*

### 6.5.3 One-off grants from the Commonwealth

The impact of one-off grants from the Commonwealth on the net result is shown in Figure 6.2. In this regard the Treasurer advised that:<sup>285</sup>

*With regard to one off grants from the commonwealth — this is money coming in from the one off payments for the BER, Building the Education Revolution — these are significant payments where the federal government set targets to invest in education. They have put that money in. It is treated as revenue coming into the operating statement, which means there is a negative balance. You will note that it was significant in 09–10 and 10–11 and then in the next graph we have put it across where it still has a negative balance but the negative balance is being reduced as we do the hard work to make sure that the operating statement is more sustainable.*

The Committee notes that one-off grants for asset investment are recognised as revenue in the operating statement, while the expenditure is capitalised in the balance sheet and therefore does not appear as expense in the operating statement. As a result, the net result from transactions for the year is inflated by such amounts. The grants are presented in this way due to the requirements of the Australian Accounting Standards.<sup>286</sup> The Committee is pleased to note that the 2011-12 budget papers provide, for the first time, a table indicating what the net

283 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.26

284 *ibid.*, p.160

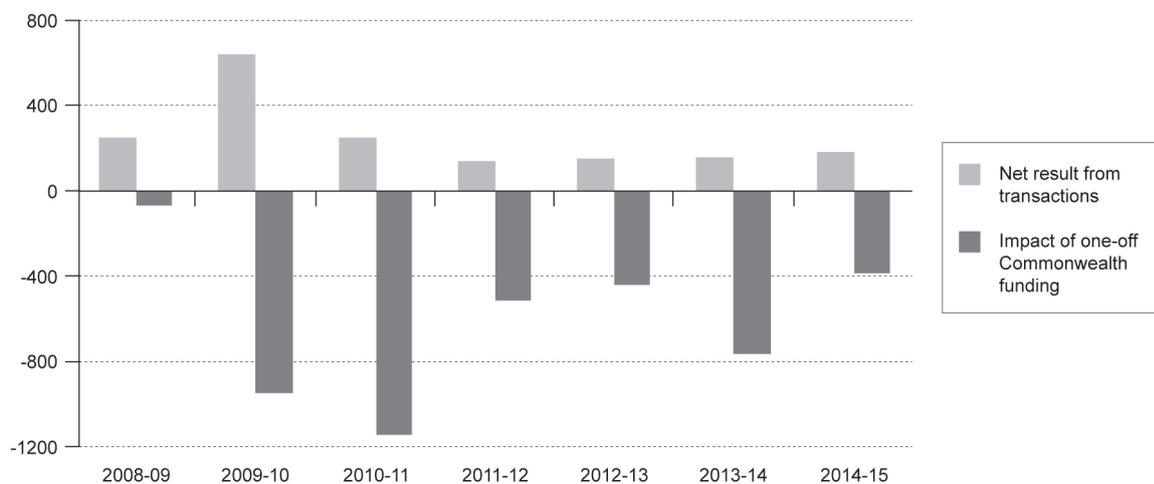
285 Hon. K. Wells MP, Treasurer, 2011-12 budget estimates hearing, transcript of evidence, 6 May 2011, p.4

286 Australian Accounting Standards Board, *Accounting Standard AASB 1004: Contributions*, July 2004

results from transactions would be if these one-off grants were not included.<sup>287</sup> The Committee considers it important that this information continue to be provided in future budget papers.

**Recommendation 53: Future budget papers continue to disclose the effect of removing one-off Commonwealth grants on the net results from transactions for previous years, the budget year and the forward estimates.**

**Figure 6.2 Impact of one-off grants from the Commonwealth on net result from transactions**



Source: Hon. K. Wells MP, Treasurer, 2011-12 budget estimates hearing, presentation, 6 May 2011, slide 4

The Committee acknowledges the need for future operating results to be more sustainable when one-off grants from the Commonwealth cease. The Committee will therefore be interested in examining the future recommendations from the Independent Review of State Finances and the implications for the State’s budget.

#### 6.5.4 Reconciliation of Commonwealth funding to Victoria

At the budget estimates hearing covering the Health portfolio, the Committee sought assurance from the Minister that all moneys allocated from the Commonwealth were accounted for in the Health budget.

287 Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.24

The Minister for Health provided the following information in response to a question on notice:<sup>288</sup>

*Health funding to Victoria, as announced in the 2011-12 Commonwealth Budget, not only represents funding which is administered by and included in the Department of Health budget, but also includes health funding paid directly to local government, other non-government agencies and other State Departments involved in the delivery of health programs in Victoria.*

*Of the funds that are reported in the 2011-12 State Budget Papers, for instance, the responsibility for Medical Research resides with the Victorian Department of Business and Innovation, and early childhood health programs (for children aged 0 to 6 years) resides with the Victorian Department of Education and Early Childhood Development. Commonwealth funding provided for these programs would be reflected in their respective departmental budgets.*

*The Commonwealth Budget for certain programs contain budgeted reward funding, which is only eligible and payable upon the achievement of performance targets. This funding is not included in the health budget, as it is subject to attainment of the necessary performance.*

*The Commonwealth Budget papers also contain funds that go directly to entities outside of State Budget Paper reporting responsibility. For example, the National Partnership on Preventative Health, the 'Healthy communities' component of this agreement (\$72 million nationally from 2009-10 to 2012-13) will be distributed by the Commonwealth directly to Local Governments.*

*The Commonwealth Budget also includes funding that is distributed by the Commonwealth to the private health system, such as Medicare arrangements and private sector infrastructure projects.*

Overall, Commonwealth grant revenue contributes \$22.4 billion (47 per cent) of the State's revenue budget for 2011-12.<sup>289</sup> Of this, \$8.9 billion is provided as grants for specific purposes to be spent by the general government sector.<sup>290</sup> The Committee is of the view that the supporting budget data sets that accompany the budget papers should include a spreadsheet that shows the distribution of these grants for specific purposes according to department, with reference as to how this funding can be tracked in the budget papers. Such a trail would provide evidence of where this funding can be found in departmental output and financial statements throughout the budget papers.

288 Hon. D. Davis MLC, Minister for Health, response to questions taken on notice, correspondence received 27 June 2011

289 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, pp.9, 26

290 *ibid.*, p.159

**Recommendation 54:** The Department of Treasury and Finance disclose, by way of the supporting budget data sets that accompany the budget papers, a reconciliation of how grants for specific purposes received from the Commonwealth for the general government sector will be distributed to individual departments, together with a trail of how this funding can be traced to departmental output and financial statements.

## 6.6 Changes to Commonwealth legislation

Changes to legislation at the Commonwealth level can also influence Victoria's revenue. On 6 May 2011, the Commonwealth Parliamentary Joint Select Committee on Gambling Reform recommended that a mandatory pre-commitment scheme apply to all players of high-intensity electronic gaming machines by 2014 (Recommendation No.12). Mandatory pre-commitment requires players to set limits before they play.<sup>291</sup> The Committee recommended that players set binding spending limits but did not specify an upper limit (Recommendation No.13). In noting the release of this report, the Victorian Government stated that *'it remains committed to implementing its policy for pre-commitment technology to be voluntary for players to use and available on all machines in Victoria by 2015-16.'*<sup>292</sup>

According to the budget papers, the Government estimates that \$1,031 million will be raised in revenue from gambling taxes imposed on electronic gaming machines, a rise of around \$30 million on the latest revised estimate for 2010-11.<sup>293</sup> Given the importance of gambling revenue to the State's budget and the expected rise in revenue to be derived from electronic gaming machines in 2011-12, the Committee was interested in obtaining evidence at the estimates hearing about the impact that mandatory pre-commitment, if introduced in Victoria, would have on electronic gaming machine revenue in this State. In this regard, the Minister for Gaming advised the Committee that:<sup>294</sup>

*... it is very difficult to be able to model with any sort of effectiveness what the impact on gambling behaviour may be without knowing exactly what the policy proposals coming out of Canberra are. So I think it would be premature to be able to come up with any definitive numbers in relation to any budgetary impact of federal proposals when we do not have those proposals, we do not know if those proposals are going to be able to get through the federal Parliament and we do not know when they may take effect. So I think there is a need for more certainty before any sort of particularly useful or reliable modelling could take place.*

291 Parliament of Australia, 'Parliamentary Joint Select Committee on Gambling Reform', <[www.aph.gov.au/senate/committee/gamblingreform\\_ctte/precommitment\\_scheme/report/b03.htm](http://www.aph.gov.au/senate/committee/gamblingreform_ctte/precommitment_scheme/report/b03.htm)>, accessed 11 July 2011

292 Hon. T. Baillieu MP, Premier of Victoria, 'Victoria determined to implement voluntary gaming machine pre-commitment', media release, 6 May 2011

293 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.148

294 Hon. M. O'Brien MP, Minister for Gaming, 2011-12 budget estimates hearing, transcript of evidence, 18 May 2011, p.7

The Committee believes that, where there are areas that could have a material effect on the State's budget and these areas are currently under consideration, the Department of Treasury and Finance should establish a bulletin on its website that provides an easily accessible means of obtaining up-to-date information, from a central repository, on how these matters are being addressed.

**Recommendation 55:** To enable interested parties to understand the status of unresolved matters that could have a material effect on the State's budget, the Department of Treasury and Finance establish a dedicated page on its website that contains an up-to-date commentary on the status of these matters and their potential impact on the Budget.

## 6.7 Competitiveness of Victoria's taxation system

As outlined in the 2011-12 Budget, the Government intends to improve the State's competitiveness and has identified taxation reform as critical to a competitive business environment.<sup>295</sup> One of the ways it will do this is through the development of a productivity reform agenda to promote Victoria's competitiveness and boost productivity growth. One of the Government's key broad areas of focus will involve reducing business costs through competition, regulation and taxation reform.<sup>296</sup>

The Committee notes that the Government has engaged the Victorian Competition and Efficiency Commission (VCEC) to conduct an inquiry to identify the main elements of a State-based reform agenda that will focus on promoting productivity, competitiveness and labour force participation. The analysis is to be informed by benchmarking Victoria's competitive position with other jurisdictions in areas that include state taxes and regulation.<sup>297</sup> In terms of reducing business costs, the Government has given a commitment that it '*will respond to the VCEC's inquiry into Victoria's regulatory framework and implement a range of actions to further enhance Victoria's leadership in regulatory reform.*'<sup>298</sup>

Given that taxation is an essential element of a competitive business environment, the Committee also observes that the Government intends to advocate Commonwealth–State tax reforms that are in the long-term interests of Victorians.<sup>299</sup>

Given that the Government is taking steps to improve the competitiveness of Victoria's taxation system, the Committee considers that the budget papers should provide some measures by which the competitiveness of Victoria's system can be compared to other jurisdictions. In this context, the Committee notes a recommendation of the former Committee that the budget papers disclose an analysis of the total revenue per capita for Victoria

295 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.6

296 *ibid.*, pp.7, 16

297 *ibid.*, p.16

298 *ibid.*, p.17

299 *ibid.*, p.18

compared to other states and territories.<sup>300</sup> In response, the former Government indicated that:<sup>301</sup>

*Following the release of each budget, the Department of Treasury and Finance reviews the scope for including additional information in the following year's budget papers. As part of this review, the Department will examine the feasibility of including a table showing revenue per capita and other variables (similar to Table 5.3 in NSW BP2 [for 2009-10]) for each jurisdiction in the 2010-11 budget papers.*

The Committee also notes that the Western Australian budget papers provide three measures of tax competitiveness – taxation revenue as a proportion of gross state product, taxation revenue per capita and 'tax effort'.<sup>302</sup> The current Government may wish to consider these or any other measures that it considers appropriate to compare Victoria's taxation system.

**Recommendation 56: 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.**

## 6.8 Net debt

### 6.8.1 Introduction

Section 6.2 of Chapter 2 above provides an overview of the Government's net debt projections, including:

- a break-down over the forward estimates period of the extent to which general government net debt is expected to rise (see also Table 6.9 below);
- the reasons for the increase in net debt to increase by 30 June 2013 at a higher rate than anticipated at the time of the 2010-11 Budget Update;
- the Government's commitment to move to a sustainable level of public debt over time and maintain its AAA credit rating (see further comments below);
- disclosure of the extent to which net debt to be incurred by the non-financial public sector is expected to rise over the forward estimates period (see also Table 6.11);
- quotes from the ratings agencies confirming that the AAA credit rating is not immediately impacted by the 2011-12 Budget; and

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300 Public Accounts and Estimates Committee, *Report on the 2009-10 Budget Estimates — Part Two*, October 2009, Recommendation 13, p.101

301 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 88th Report on the 2009-10 Budget Estimates — Part Two, tabled 14 April 2010, p.10

302 Western Australian Budget Paper No.3, *2011-12 Economic and Fiscal Outlook*, May 2011, pp.59-60

- the intention by the Committee to monitor the effect that future medium to long-term fiscal strategies have on producing sustainable financial and economic outcomes for Victoria.

The Committee's analysis in this section now provides further examination of the State's debt levels and how this is impacted by strategies in the 2011-12 Budget.

### 6.8.2 Credit rating agencies assessment of the 2011-12 Budget

As outlined in the Budget, *'the Government is committed to ensuring a sustainable level of public sector debt that is consistent with the State maintaining its triple-A credit rating'*.<sup>303</sup> The budget papers explain that Standard and Poor's has indicated that the trigger for downgrading the AAA credit rating would be if the ratio of net financial liabilities to operating revenue for the non-financial public sector were to exceed 130 to 140 per cent.<sup>304</sup> In comparison, Victoria's ratio is currently expected to peak at 112 per cent over the forward estimates period according to Department of Treasury and Finance estimates.<sup>305</sup>

The Committee notes the following view stated by Standard and Poor's on Victoria's budget for 2011-12:<sup>306</sup>

*Downside potential to the rating remains low, with the budget forecasts and Victoria's commitment to a sustainable medium-term fiscal strategy supporting the rating. We anticipate that the new government will fully articulate its fiscal strategy early in 2012, following the final report of the independent review into state finances.*

According to Moody's Investors Service's commentary on the 2011-12 Budget:<sup>307</sup>

*... the budget projects deterioration in Victoria's financial results for 2011-12 and over the medium term.*

*The level of cash deficits are forecast to be significantly larger than anticipated in Victoria prior year's budget and in the state's December 2010 budget update. A deficit of -\$2.6 billion or 5.4% of revenue is now forecast for 2011-12, compared to -\$1.5 billion, or 3.2% of the budget last year. Deficits are expected to persist until 2013/14, which would lead to an increase in the state's reliance on borrowing and a higher resultant debt burden.*

*These less-positive trends reflect slower-than-anticipated growth in GST-backed commonwealth revenues, which is due to a reduction in the state's share of equalization grants implemented as part of the Grants Commission Review... However, the state's financial performance also reflects a higher level of current*

303 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.44

304 *ibid.*

305 *ibid.*

306 Standard & Poor's, 'Ratings on Australia's State of Victoria Unchanged After State Budget Announcement', 3 May 2011

307 Moody's Investors Service, 'Announcement: Moody's Comments on the State of Victoria's 2011/12 Budget', 4 May 2011

*expenditures related to the election commitments of a new administration as well as a planned increase in capital spending.*

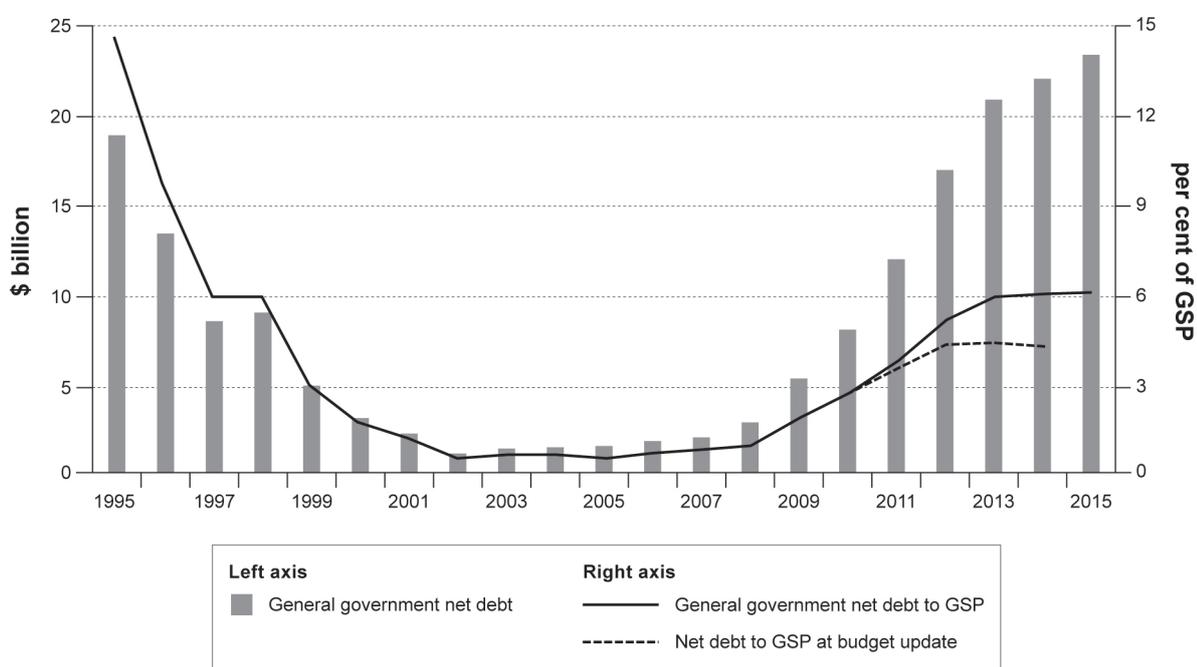
*...the state recognizes that it will need to make budgetary adjustments in future years to return to a balanced budget and has set up a panel to undertake an independent review of state finances this year. The panel's final report will be released in February 2012 followed by state adoption of specific budgetary measures to be implemented in the 2012/13 budget.*

### 6.8.3 Analysis of net debt levels

#### Increasing trend in net debt levels since 2007

Figure 6.3 illustrates that net debt (the difference between gross debt and liquid financial assets) for the general government sector is expected to continue to steadily increase in dollar terms in 2011-12 and 2012-13 and to a lesser extent in 2013-14 and 2014-15, while as a percentage of gross State product (GSP), the rate is estimated to stabilise over the last three years of the forward estimates. This steady increase in net debt has been evident since 2007 with the most notable increases occurring between 2011 and 2012 (\$4.9 billion, from a total of \$11.9 billion) and 2012 and 2013 (\$4.0 billion, from a total of \$16.8 billion) as shown in Table 6.9.

**Figure 6.3 Trend in general government net debt levels, 1995 to 2015**



Source: Hon. K. Wells MP, Treasurer, 2011-12 budget estimates hearing, presentation, 6 May 2011, slide 13

As can be seen from Table 6.9, there was very little difference in the expected level of net debt to be incurred for the general government sector between the 2010-11 Budget and the 2010-11 Budget Update. However, there has been a substantial upward revision of these levels in dollar terms and as a percentage of GSP in framing the Budget for 2011-12 and over the forward estimates.

**Table 6.9: General government sector net debt as at 30 June, 2010 to 2015**

|  | 2010 revised /actual | 2011 estimate revised | 2012 estimate budget | 2013 estimate | 2014 estimate | 2015 estimate |
|--|----------------------|-----------------------|----------------------|---------------|---------------|---------------|
| Net debt as per 2010-11 Budget (\$ billion)                      | 8.7                  | 11.7                  | 14.5                 | 15.8          | 15.8          | -             |
| Net debt as per 2010-11 Budget Update (\$ billion)               | 8.0                  | 11.1                  | 14.4                 | 15.8          | 15.7          | -             |
| Net debt as per 2011-12 Budget (\$ billion)                      | -                    | 11.9                  | 16.8                 | 20.8          | 22.0          | 23.2          |
| Net debt as a percentage of GSP as per 2010-11 Budget (%)        | 2.8                  | 3.5                   | 4.1                  | 4.3           | 4.1           | -             |
| Net debt as a percentage of GSP as per 2010-11 Budget Update (%) | 2.6                  | 3.5                   | 4.3                  | 4.4           | 4.2           | -             |
| Net debt as a percentage of GSP as per 2011-12 Budget (%)        | -                    | 3.7                   | 5.0                  | 5.9           | 5.9           | 5.9           |

Sources: Budget Paper No.2, 2010-11 Strategy and Outlook, p.51;  
2010-11 Victorian Budget Update, December 2010, p.21;  
Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.33

According to the 2011-12 Budget, the impact of the reduction in Victoria's forecast GST grants is one contributor (see Section 6.5.2 of this Chapter for further commentary), plus additional infrastructure funding for cost pressures and future investment.<sup>308</sup> As indicated by Moody's Investors Service above, increased expenditure has also been a significant contributor (see further discussion in Chapter 7).

### **Stabilising net debt from 2013**

Table 6.9 shows that net debt for the general government sector as a percentage of GSP is expected to rise from a revised estimate of 3.7 per cent at 30 June 2011 to 5.0 per cent and 5.9 per cent at 30 June 2012 and 30 June 2013 respectively, and then stabilise at that level for each of the last two years of the forward estimates to 30 June 2015.

The budget papers indicate that the Government intends stabilising debt as a percentage of GSP.<sup>309</sup> At the budget estimates hearing, the Treasurer advised the Committee that in addressing debt in the longer term, strategies to be employed would involve slowing expenditure growth, implementing a savings policy and instituting a more rigorous approach to managing infrastructure costs.<sup>310</sup> On this latter point, the Committee heard from the Treasurer that:

*... we have the high-risk, high-value unit in treasury, and that is they will go through every part of a proposal to make sure that the cost-benefit analysis, the business case and the scoping is correct, because if it is not correct, then it will go back to the department ... it has to be signed off by me...*

308 Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.23

309 *ibid.*, p.4

310 Hon. K. Wells MP, Treasurer, 2011-12 budget estimates hearing, transcript of evidence, 6 May 2011, p.16

The Committee notes an interim finding made by the Independent Review of State Finances that, for the general government sector, a greater investment is needed in fixed assets to enhance the delivery of public services than is forecast in the investment levels for 2013-14 and 2014-15, and that the net result from transactions should at least equal the level of net infrastructure investment.<sup>311</sup> The review also finds that general government sector net debt should be reduced to zero on average over a 10 year rolling period and be repaid over the next 10 years.<sup>312</sup> In view of the implications of these interim findings on net debt levels, the Government needs to develop and release a detailed debt management strategy, including key risk factors in debt management, for the general government sector that reflects how the Government plans to:

- stabilise net debt as a proportion of GSP from 2013 through to 2015; and
- implement sustainable management practices that will ensure that all infrastructure investment is internally funded and debt does not increase more than anticipated over the medium term.

An outline of high-level strategies to be employed by the Government is shown in Section 6.8.4 of this chapter.

The Committee believes that a useful addition to the budget papers could involve a comparison of the ratio of net debt to GSP in Victoria to other states and territories.

**Recommendation 57: The Department of Treasury and Finance disclose in the budget papers its debt management strategy and detail the measures, including targets, that are to be employed to ensure the successful implementation of the strategy.**

**Recommendation 58: The Department of Treasury and Finance include in the budget papers a comparison of Victoria's ratio of net debt to GSP to the other states and territories.**

Table 6.10 shows that for the non-financial public sector (i.e. the general government sector and the public non-financial corporations sector that comprise bodies primarily engaged in the production of goods and services of a non-financial nature for sale in the market place at prices that aim to recover most of the costs involved, such as water and port authorities), there is also expected to be a large increase in net debt in 2012, which will now also extend to 2013 and then moderate in the latter period of the outyears.

The Committee notes that the largest increase in net debt is anticipated to occur for 2012 compared to the revised estimate for 2011, an increase of 10.5 billion or 49 per cent, and then increase by \$4.3 billion or 14 per cent in 2013.

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311 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, pp.31-2

312 Independent Review of State Finances, *Interim Report*, April 2011, p.14

**Table 6.10: Non-financial public sector net debt over the forward estimates period as at 30 June each year**

|  | 2009<br>actual | 2010<br>revised<br>/actual | 2011<br>revised | 2012<br>budget | 2013<br>estimate | 2014<br>estimate | 2015<br>estimate |
|--|----------------|----------------------------|-----------------|----------------|------------------|------------------|------------------|
| Net debt as per 2010-11 Budget (\$ billion)                      | 10.7           | 16.1                       | 20.6            | 28.9           | 30.9             | 31.7             | -                |
| Net debt as per 2010-11 Budget Update (\$ billion)               | -              | 14.8                       | 19.7            | 28.4           | 30.1             | 30.7             | -                |
| Net debt as per 2011-12 Budget (\$ billion)                      | -              | -                          | 20.4            | 30.9           | 35.2             | 36.8             | 38.6             |
| Net debt as a percentage of GSP as per 2010-11 Budget (%)        | 3.7            | 5.1                        | 6.2             | 8.3            | 8.4              | 8.2              | -                |
| Net debt as a percentage of GSP as per 2010-11 Budget Update (%) | -              | 4.9                        | 6.2             | 8.4            | 8.5              | 8.3              | -                |
| Net debt as a percentage of GSP as per 2011-12 Budget (%)        | -              | -                          | 6.4             | 9.2            | 9.9              | 9.9              | 9.9              |

Sources: *Department of Treasury and Finance, Budget Paper No.2, 2010-11 Strategy and Outlook, p.64;*  
*Victorian Budget Update, December 2010, p.30;*  
*Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.44*

The analysis as shown in Table 6.11 indicates that net debt to be incurred on behalf of the general government sector is estimated to be around 50 per cent higher than for the public non-financial corporations sector. With regard to this latter sector, there are two corporations where net debt is planned to be reduced over each year of the forward estimates, namely Melbourne Water and Victorian Rail Track. A break-down of net debt for the non-financial public sector between the general government sector and the public non-financial corporations sector according to each corporation is presented in Table 6.11.

**Table 6.11: Breakdown of net debt for the non-financial public sector**

|   | 2011-12<br>(\$ million) | 2012-13<br>(\$ million) | 2013-14<br>(\$ million) | 2014-15<br>(\$ million) |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Non-financial public sector</b>                      | <b>30,917.9</b>         | <b>35,237.2</b>         | <b>36,800.8</b>         | <b>38,563.1</b>         |
| General government sector                               | 16,814.9                | 20,764.1                | 21,989.1                | 23,153.2                |
| Public non-financial corporations sector <sup>(a)</sup> | 14,107.1                | 14,474.4                | 14,806.1                | 15,391.4                |
| Barwon Region Water                                     | 522.4                   | 575.9                   | 672.9                   | 752.9                   |
| Central Gippsland Water                                 | 222.7                   | 236.1                   | 269.4                   | 297.6                   |
| City West Water   | 861.4                   | 970.8                   | 1,001.0                 | 1,053.0                 |
| Coliban Region Water                                    | 375.1                   | 372.4                   | 379.4                   | 386.0                   |
| Melbourne Water   | 4,018.3                 | 3,929.5                 | 3,840.4                 | 3,767.2                 |
| Port of Melbourne                                       | 474.2                   | 503.3                   | 510.3                   | 472.9                   |
| South East Water  | 929.3                   | 1,035.0                 | 1,111.5                 | 1,191.7                 |
| Victorian Rail Track                                    | 990.8                   | 931.7                   | 870.4                   | 806.4                   |
| VicUrban  | 357.3                   | 317.8                   | 314.1                   | 426.0                   |
| Western Region Water                                    | 129.3                   | 143.0                   | 201.5                   | 260.1                   |
| Yarra Valley Water                                      | 1,653.2                 | 1,787.5                 | 1,905.3                 | 2,150.8                 |
| Other   | 3,573.1                 | 3,671.4                 | 3,729.9                 | 3,826.8                 |

Note: (a) Public non-financial corporations (PNFC) with net debt in excess of \$250 million in at least one of the forward estimate years have been identified. All other PNFC entities are included in 'Other'

Source: Department of Treasury and Finance, response to the Committee's 2011-12 budget estimates questionnaire — Part B, received 4 May 2011, p.19

#### **6.8.4 Strategies to reduce Victoria's debt position**

As shown in Table 6.9, while Victoria's net debt position is increasing in nominal terms across the forward estimates period, in 2013 it is expected to plateau as a proportion of GSP.

Given the impact that Victoria's debt position has on its ability to maintain its AAA credit rating, the Committee was interested in gaining an understanding of the strategies that had been put in place to achieve this outcome. According to the Department of Treasury and Finance, key strategies to maintain Victoria's AAA credit rating include:<sup>313</sup>

- stabilising debt as a percentage of GSP by 2013;

313 Department of Treasury and Finance, response to the Committee's 2011-12 budget estimates questionnaire — part B, received 4 May 2011, p.20

- reducing net financial liabilities as a percentage of GSP by 2015;
- maintaining debt in the non-financial public sector (NFPS) at a sustainable level and, in particular, ensuring NFPS net financial liabilities to revenue are kept below Standard & Poor's published trigger point of 130 to 140 per cent. This ratio is currently expected to peak at 112 per cent over the forward estimates period;
- delivering net results from transactions of at least \$100 million each year;
- achieving \$2.2 billion of savings over the five years to 2014-15;
- constraining expenditure growth to an average of 3.2 per cent per annum from 2012-13 to 2014-15; and
- increasing the level of rigour and oversight involved in developing and approving asset investment proposals, which is to include scrutiny by the Treasurer of high-value and high-risk investments.

In inquiring about strategies in place to reduce Victoria's net debt position over time, the Committee was also advised by the Department of Treasury and Finance that the plans to address Victoria's nominal net debt position include:<sup>314</sup>

- delivering surpluses of at least \$100 million each year;
- constraining expenditure growth and identifying additional cost savings where possible;
- enhancing the rigour and oversight of asset investment proposals; and
- introducing additional initiatives in response to the Independent Review of State Finances.

## 6.9 Tax expenditures and concessions

Tax expenditures relate to tax concessions that represent a deviation from the normal taxation treatment. Deviations from the norm include establishing tax-free thresholds, exempting certain taxpayers, applying a lower rate, granting deductions or providing a rebate of a tax.<sup>315</sup> Concessions represent either a direct budget outlay or a reduction in government charges for particular groups in the community.<sup>316</sup>

The Committee recommended in its *Report on the 2008-09 Budget Estimates — Part Three* that the Department of Treasury and Finance expand the concessions section in the budget papers by, among other things, revealing the estimated number of Victorians/households expected to benefit from concessions and related programs.<sup>317</sup> The former Government indicated that the Department of Treasury and Finance would examine the feasibility and practicality of including the number of benefiting households in budget papers or other

314 *ibid.*, p.19

315 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.17

316 *ibid.*, p.181

317 Public Accounts and Estimates Committee, *Report on the 2008-09 Budget Estimates — Part Three*, October 2008, p.149

suitable publications.<sup>318</sup> While this concept has not been applied in presenting material relating to concessions in the 2011-12 budget papers, the Committee notes that the Department of Human Services' annual report on concessions and hardship programs for 2008-09 and 2009-10, released in June 2010, contains wide coverage of the number of concessions and expenditure foregone across numerous sectors such as health, education, transport and household services.<sup>319</sup> The Committee believes that this is sufficient disclosure in this instance.

### **6.9.1 Tax expenditures**

As disclosed in Table 6.12, the total value of tax assistance provided by the Government in 2011-12 in terms of tax expenditures that can be costed (including tax-free thresholds) is estimated at \$5.7 billion, slightly less than the total for 2010-11. This is expected to increase to an average of \$6.0 billion a year over the forward estimates, which is mainly driven by estimated increases in land tax expenditures.<sup>320</sup> In keeping with past practice, the exemption provided to employers with payrolls below the threshold level of \$550,000 over a financial year (included in payroll tax expenditures) is the largest item, consuming around a third of the total of tax expenditures.

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318 Victorian Government, Government Responses to the Recommendations of the Public Accounts and Estimates committee 80th Report on the 2008-09 Budget Estimates, tabled 19 April 2009, p.12

319 Department of Human Services, *State concessions and hardship programs 2008-09 and 2009-10, Reducing barriers to opportunity and making services more affordable*, June 2010, p.11

320 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.176

**Table 6.12: Tax expenditures that can be costed (including thresholds) 2010-11 to 2014-15**

| Description   | 2010-11<br>estimate<br>(\$ million) | 2011-12<br>estimate<br>(\$ million) | 2011-12<br>proportion<br>of total tax<br>expenditure<br>(%) | Average<br>2012-13 to<br>2014-15<br>(\$ million) |
|---|-------------------------------------|-------------------------------------|---|--|
| <b>Land tax expenditures</b>  |                                     |                                     |   |  |
| Principal place of residence  | 1,086                               | 1,052                               | 18.5  | 1,161  |
| Land used for primary production  | 292                                 | 283                                 | 5.0   | 312  |
| Crown Property (right of Victoria)  | 205                                 | 199                                 | 3.5   | 219  |
| Commonwealth land   | 187                                 | 181                                 | 3.2   | 199  |
| Land vested in a public statutory authority                                       | 171                                 | 166                                 | 2.9   | 183  |
| Land held in trust for public or municipal purposes or vested in any municipality | 146                                 | 142                                 | 2.5   | 156  |
| Other   | 1,616                               | 1,565                               | 27.6  | 1,727  |
| <b>Sub-total (land tax expenditures)</b>  | <b>2,325</b>                        | <b>2,253</b>                        | <b>39.7</b>   | <b>2,484</b>                                     |
| <b>Payroll tax expenditures</b>   |                                     |                                     |   |  |
| Wages paid by public hospitals  | 272                                 | 283                                 | 5.0   | 304  |
| Wages paid by a public benevolent institution/charity                             | 245                                 | 255                                 | 4.5   | 274  |
| Wages paid by a non-profit, non-public school                                     | 141                                 | 146                                 | 2.6   | 157  |
| Employers' payroll below \$550,000  | 1,966                               | 1,978                               | 34.9  | 1,962  |
| Other   | 229                                 | 239                                 | 4.2   | 258  |
| <b>Sub-total (payroll tax expenditures)</b>                                       | <b>2,853</b>                        | <b>2,901</b>                        | <b>51.1</b>   | <b>2,955</b>                                     |
| <b>Congestion levy tax expenditures</b>   | <b>34</b>                           | <b>35</b>                           | <b>0.6</b>  | <b>36</b>  |
| <b>Gambling tax expenditures</b>  | <b>74</b>                           | <b>77</b>                           | <b>1.4</b>  | <b>85</b>  |
| <b>Motor vehicle tax expenditures</b>   | <b>87</b>                           | <b>90</b>                           | <b>1.6</b>  | <b>98</b>  |
| <b>Other land transfer duties expenditures<sup>(a)</sup></b>                      | <b>387</b>                          | <b>320</b>                          | <b>5.6</b>  | <b>379</b>                                       |
| <b>Total estimated tax expenditures</b>   | <b>5,758</b>                        | <b>5,675</b>                        | <b>100.0</b>  | <b>6,036</b>                                     |

Note: (a) principally duty on land transfers

Source: Budget Paper No.5, 2011-12 Statement of Finances, May 2011, pp.176-8

## 6.9.2 Concessions

Table 6.13 shows that the majority of concessions are concentrated in the health sector and electricity, water and sewerage, which together comprise 61 per cent of total concessions. The Committee noted that electricity concessions as a proportion of the aggregate estimated concessions for 2011-12 have increased from 5.3 per cent as per the 2010-11 Budget to 10.0 per cent in 2011-12 (from \$68.0 million to \$153.0 million). Over the same period,

water and sewerage concessions have increased from 8.8 per cent to 10.3 per cent of total concessions (from \$113.0 million to \$158.0 million).

As outlined in the 2011-12 Budget, in terms of addressing cost of living pressures, ‘\$445 million has been provided for eligible households to benefit from a year-round electricity concession, and to enable water and sewerage concessions to keep pace with increasing costs. This will benefit an estimated 815,000 people across the State.’<sup>321</sup> With regard to electricity concessions for pensioners and beneficiaries, the 2011-12 Budget provides \$71.8 million in 2011-12 (\$381.6 million over five years).<sup>322</sup> This funding will entitle all Victorian concession card holders to a 17.5 per cent discount on electricity bills.<sup>323</sup> The annual cap for water and sewerage concessions for households in most need is to be raised in 2011-12, resulting in additional concessions in the order of \$15.2 million in 2011-12 (\$62.9 million over four year).<sup>324</sup>

**Table 6.13: Major concessions by category 2009-10 to 2011-12**

| Category   | 2009-10<br>estimate<br>(\$ million) | 2010-11<br>estimate<br>(\$ million) | 2011-12<br>estimate<br>(\$ million) | 2011-12<br>proportion<br>of total<br>concessions<br>(%) |
|--|-------------------------------------|-------------------------------------|-------------------------------------|---|
| <b>Energy, municipal rates, water and sewerage</b>             |                                     |                                     |                                     |   |
| Electricity  | 71                                  | 111                                 | 153                                 | 10.0  |
| Mains gas  | 45                                  | 59                                  | 63                                  | 4.1   |
| Municipal rate concessions                                     | 75                                  | 89                                  | 82                                  | 5.3   |
| Water and sewerage   | 112                                 | 143                                 | 158                                 | 10.3  |
| <b>Sub-total (Energy, municipal rates, water and sewerage)</b> | <b>303</b>                          | <b>402</b>                          | <b>457</b>                          | <b>29.8</b>   |
| <b>Health</b>  |                                     |                                     |                                     |   |
| Ambulance  | 321                                 | 352                                 | 364                                 | 23.7  |
| Dental services and spectacles                                 | 121                                 | 132                                 | 138                                 | 9.0   |
| Community health programs                                      | 119                                 | 123                                 | 128                                 | 8.3   |
| <b>Sub-total (Health)</b>                                      | <b>561</b>                          | <b>607</b>                          | <b>629</b>                          | <b>40.9</b>   |
| <b>Education</b>   | <b>75</b>                           | <b>78</b>                           | <b>107</b>                          | <b>7.0</b>  |
| <b>Hardship assistance</b>                                     | <b>45</b>                           | <b>43</b>                           | <b>40</b>                           | <b>2.6</b>  |
| <b>Social and community services</b>                           | <b>6</b>                            | <b>5</b>                            | <b>5</b>                            | <b>0.3</b>  |
| <b>Private transport</b>                                       | <b>152</b>                          | <b>166</b>                          | <b>174</b>                          | <b>11.3</b>   |
| <b>Public transport</b>  | <b>116</b>                          | <b>120</b>                          | <b>124</b>                          | <b>8.1</b>  |
| <b>Total of items estimated</b>                                | <b>1,258</b>                        | <b>1,421</b>                        | <b>1,536</b>                        | <b>100.0</b>  |

Source: Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.182

321 Budget Paper No.1, 2011-12 Treasurer’s Speech, May 2011, p.6

322 Budget Paper No.3, 2011-12 Service Delivery, May 2011, p.47

323 ibid., p.50

324 ibid., p.119

The Committee observes that the pie chart presentation in the 2011-12 budget papers of the estimated concessions by category represents the revised estimates for 2010-11. It would be more informative if the proportional breakdown of the estimated concessions by category reflected the estimates for the current budget year in future.

**Recommendation 59:** The Department of Treasury and Finance ensure that the diagrammatic breakdown of estimated concessions in the budget papers reflects the current budget year.

### ***Reducing the cost of ambulance membership subscription fees***

The Budget provides funding to Ambulance Victoria of \$52.1 million in 2011-12 (\$241.9 million over five years) to cover the cost of a 50 per cent reduction in membership fees.<sup>325</sup> The provision of more affordable access by the community to ambulance services is the cornerstone of this revenue initiative.<sup>326</sup> With this initiative contributing to the Ambulance Emergency Services and Ambulance Non-Emergency Services outputs, the Committee notes that these services are designed to provide timely and high-quality ambulance services, consistent with the Department of Health's priority of achieving the best health and wellbeing for all Victorians.<sup>327</sup>

At the estimates hearing, the Committee was interested in gaining an appreciation of the impact that the budgetary measure to reduce ambulance subscription premiums would have on the demand for ambulance services, ambulance response times and health outcomes.

The Committee notes that ambulance response times in 2010-11 are predicted to be substantially below target, as shown in Table 6.14. The budget papers reveal that the expected outcome for 2010-11 reflects the impact of increased demand.<sup>328</sup>

**Table 6.14: Ambulance response times compared to target, 2010-11**

| <b>Performance Measure</b>   | <b>2011-12 target</b> | <b>2010-11 expected outcome</b> | <b>2010-11 target</b> | <b>2009-10 actual</b> |
|--|-----------------------|---------------------------------|-----------------------|-----------------------|
|  | (%)                   | (%)                             | (%)                   | (%)                   |
| Proportion of emergency (Code 1) incidents responded to within 15 minutes – statewide                                | 85.0                  | 77.0                            | 85.0                  | 80.7                  |
| Proportion of emergency (Code 1) incidents responded to within 15 minutes in centres with more than 7,500 population | 90.0                  | 82.3                            | 90.0                  | 86.9                  |

Source: *Budget Paper No.3, 2011-12 Service Delivery, May 2011, p.197*

325 *ibid.*, p.91

326 *ibid.*

327 *ibid.*, pp.196-7

328 *Budget Paper No.3, 2011-12 Service Delivery, May 2011, p.197*

In striving to ease the pressure on families, the Minister for Health stated that, ‘*We are confident that the response times will incrementally, steadily improve.*’<sup>329</sup>

The Committee also notes that the Department of Health identifies developing service and system capacity through initiatives that include improving ambulance response times and boosting ambulance services as a key strategic priority.<sup>330</sup> The 2011-12 Budget includes \$23.4 million (\$151.0 million over five years) for the employment of 340 new ambulance officers.<sup>331</sup> This is discussed further in Part Two of this report.<sup>332</sup>

The Committee is of the view that it is going to be very important for Ambulance Victoria to closely monitor the way in which the inducement to encourage more Victorians to become members, through the membership fee reduction initiative in the 2011-12 Budget, is impacting on the demand for ambulance services and the resultant impact on ambulance response times and health outcomes. Performance in this area should influence resource allocations through budgetary measures in future. The Committee also maintains that any significant growth in demand or impact on response times for ambulance services emanating from measures in the 2011-12 Budget should be explained in the Department of Health’s annual report in accounting for its performance relative to its targets in the Ambulance Services output group.

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329 Hon. D. Davis MLC, Minister for Health, 2011-12 budget estimates hearing, transcript of evidence, 11 May 2011, p.19

330 Department of Health, response to the Committee’s budget estimates questionnaire — part A, received 6 May 2011, pp.4-5

331 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.29

332 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Two*, June 2011, pp.46-7

## CHAPTER 7: GENERAL GOVERNMENT SECTOR EXPENDITURE

### Chapter overview:

- 7.1** Expenditure (not including asset investment) for the general government sector is estimated at \$47.3 billion in 2011-12, 4.7 per cent more than the revised estimate for 2010-11.
- 7.2** Expenditure is expected to grow by an average of 3.2 per cent per annum between 2012-13 and 2014-15, reaching \$52.0 billion in 2014-15. This is a slower rate of growth than has generally occurred over the past decade, but is faster than was anticipated at the time of the 2010-11 Budget, partly due to expenditure on the Government's election commitments.
- 7.3** Employee expenses are the largest category of expenditure and are expected to increase slightly as a proportion of the total general government sector expenditure over the forward estimates. A larger proportion of the budget is expected to go to interest expenses over the forward estimates period due to increased borrowing. A reduced proportion is expected to go to grants than in previous years due to winding down of Commonwealth packages and Victorian flood-related funding.
- 7.4** There are significant variations between departments in terms of their estimated expenditure in 2011-12. The Department of Education and Early Childhood Development and the Department of Health together account for more than half of departmental expenditure. The five largest departments account for 89 per cent of departmental expenditure.
- 7.5** Whereas some departments deliver their services largely through 'grants and other transfers', other departments primarily deliver their services through salaried staff. The Department of Planning and Community Development, which has the largest proportion of expenditure on 'grants and other transfers', has a number of performance measures to assess its effectiveness at managing grants programs. The Committee considers that other departments passing on significant sums as grants for particular projects should consider similar measures.
- 7.6** Three departments and the Parliament have had significant variations in certain categories of expenditure between 2010-11 and 2011-12. The Committee considers that there is scope for improved disclosure in the budget papers to explain these variations.
- 7.7** Over \$1.3 billion of expenditure is not accounted for in terms of the outputs delivered by it. The Committee believes that the budget papers should provide some explanation for this expenditure.
- 7.8** Approximately \$16.6 billion is expected to be spent on 'employee expenses' across the general government sector in 2011-12. This figure is expected to rise by an average of 4.5 per cent per annum to \$19.0 billion in 2014-15, due to increases in wages and increases in employee numbers, partly offset by some reclassification of expenses and initiatives to cap or reduce the number of jobs in certain categories.

- 7.9 The Government has indicated that public sector staff must achieve productivity gains in order to receive wage increases above 2.5 per cent per annum. The details of any such gains are expected to be discussed as part of upcoming enterprise bargaining agreement negotiations.**
- 7.10 Most of the anticipated growth in staff numbers between 2011 and 2012 is expected to occur in frontline service delivery, especially health services and police. Public service employee numbers are expected to grow by 0.6 per cent, with relatively small fluctuations for individual departments.**
- 7.11 Across the general government sector, \$16.3 billion of expenditure in 2011-12 is classified as ‘other operating expenses’. Within individual departments, as much as 56 per cent of the department’s expenditure may be within this category. The budget papers provide relatively little information about what this expenditure consists of, other than to identify that it is mostly the purchase of supplies, consumables and services. The Committee considers that this category should be broken down in more detail in future budget papers, annual financial reports for the State and departmental annual reports.**
- 7.12 Departments have identified a total of 34 reviews, inquiries, studies, audits and evaluations that have been commissioned by the new Government since the November 2010 election which will be undertaken in 2011-12. Departments were able to provide costs for 24 of these investigations, which totalled \$37.7 million. The Committee considers that the outcomes of these investigations and their impact on consequent Government policy decisions and forward expenditure should be explained in future budget papers or in reports referenced in the budget papers.**
- 7.13 In the 2011-12 Budget, \$6.0 billion has been provided over the budget year and forward estimates period as a contingency for output expenditure. This is designed to cover expenditure that may be required which had not been determined at the time of the Budget. The Committee notes some improvements in the presentation of information connected to contingencies in the 2011-12 Budget. However, the Committee considers that there remain areas for potential improvement in reporting the use of contingencies in future budget papers and annual financial reports for the State.**

## **7.1 Introduction**

This chapter examines a number of issues related to the estimated expenditure by departments in 2011-12. Chapter 4 of this report looks at expenditure in terms of the costs of the different programs and projects funded. In contrast, this chapter focuses on what types of expenses were incurred in delivering services. The Australian Accounting Standards Board refers to this distinction as classifying expenses by function or by nature.<sup>333</sup> This chapter examines the way that departments break down their estimated expenditure according to the nature of the expenses. This chapter also looks at trends in expenditure as a whole.

333 Australian Accounting Standards Board, *Compiled AASB Standard AASB 101: Presentation of Financial Statements*, November 2010, paragraphs 102-3

Expenditure as discussed in this chapter does not include asset investment, which is discussed in Chapter 5.

This analysis of expenditure by nature is particularly relevant to the 2011-12 Budget, as:

- one of the Government's intentions with this budget was to reduce the rate of growth in overall expenditure compared to previous years;<sup>334</sup> and
- one of the ways in which the Government has planned to reduce expenditure is through \$1.6 billion of efficiency savings initiatives (over five years) which seek to reduce expenditure in particular categories across the whole general government sector (as opposed to reducing funding to particular projects or programs).<sup>335</sup>

The Government's plan to reduce expenditure overall is discussed further in Section 7.2.1. The savings initiatives are discussed further in Section 4.5 of Chapter 4.

## 7.2 Total general government sector expenditure

### 7.2.1 Trends in total general government sector expenditure

The total expenditure across the general government sector is estimated at \$47.3 billion in 2011-12, an increase of \$2.1 billion (or 4.7 per cent) compared to the revised estimate for 2010-11 (see Table 7.1). Over the forward estimates, expenditure is expected to grow to just under \$52.0 billion by 2014-15.

**Table 7.1: Overall government expenditure, 2009-10 to 2014-15**

|                | 2009-10<br>actual<br>(\$ million) | 2010-11<br>revised<br>(\$ million) | 2011-12<br>Budget<br>(\$ million) | 2012-13<br>estimate<br>(\$ million) | 2013-14<br>estimate<br>(\$ million) | 2014-15<br>estimate<br>(\$ million) |
|----------------|-----------------------------------|------------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Total expenses | 43,941.7                          | 45,188.9                           | 47,298.8                          | 48,657.1                            | 50,150.2                            | 51,989.7                            |

Source: Department of Treasury and Finance, 'Consolidated comprehensive operating statement', <[www.budget.vic.gov.au/CA25783300199E40/WebObj/OperatingStatementHistoricalGG/\\$File/OperatingStatementHistoricalGG.xls](http://www.budget.vic.gov.au/CA25783300199E40/WebObj/OperatingStatementHistoricalGG/$File/OperatingStatementHistoricalGG.xls)>, accessed 29 June 2011

At the budget estimates hearing, the Treasurer indicated that '*one of the significant things we have been able to do in regard to this budget is to slow the expenditure.*'<sup>336</sup> He explained that:<sup>337</sup>

*... from the 1990s to now the big issue that the state has faced is that expenditure has grown at an average of 8 per cent over the past 10 years – on average an 8 per cent growth in expenditure – but at the same time the revenue has only grown at 7.3 per cent. It is simply not a sustainable situation to have where the revenue is not keeping pace with expenditure, and that is causing significant concerns with regard to the budget.*

334 Hon. K. Wells MP, Treasurer, 2011-12 budget estimates hearing, transcript of evidence, 6 May 2011, p.4

335 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.92

336 Hon. K. Wells MP, Treasurer, 2011-12 budget estimates hearing, transcript of evidence, 6 May 2011, p.4

337 *ibid.*, p.3

The Government's anticipated 4.7 per cent growth in expenditure in 2011-12 relative to the 2010-11 revised estimate can be contrasted against the projected growth in revenue of 4.4 per cent (see Table 7.2). As can also be seen from Table 7.2, it is anticipated that the rate of growth in expenditure from 2012-13 to 2014-15 will equal the rate of growth in revenue, averaging 3.2 per cent per annum over the three-year period. This is slightly above the expected growth in the consumer price index.

**Table 7.2: Estimated growth in expenditure and income from 2011-12 to 2014-15**

|         | Growth in expenses <sup>(a)</sup><br>(%) | Growth in revenue<br>(%) | Growth in the<br>consumer price index<br>(%) |
|---------|--|--------------------------|--|
| 2011-12 | 4.7                                      | 4.4                      | 2.75   |
| 2012-13 | 2.9                                      | 2.9                      | 2.5  |
| 2013-14 | 3.1                                      | 3.1                      | 2.5  |
| 2014-15 | 3.7                                      | 3.7                      | 2.5  |

Note: (a) compared to the previous year's budget

Source: Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, pp.9, 26

The Treasurer explained that the growth in expenses for 2011-12 was higher than the outyears because of flood response initiatives.<sup>338</sup> The Committee notes that government-wide output initiatives related to flood response have an estimated expenditure of \$190.5 million in 2011-12,<sup>339</sup> which is a significant portion of the growth in expenses – if that amount is not included, the growth in expenses between 2010-11 and 2011-12 is 4.2 per cent, which is still more than in the outyears, but is less than the anticipated growth in revenue in the same period.

The Independent Review of State Finances, in its *Interim Report*, also expressed concern about the growth in expenditure at a faster rate than the growth in revenue. That review explained that such a situation reduces the net result from transactions, which is a major source of funding for infrastructure investment and the repayment of debt. In recent years, against the backdrop of a declining net operating balance and significant levels of infrastructure spending, additional borrowing has been necessary to fund infrastructure spending. If the trend of growth in expenditure exceeding the growth in revenue were to continue, and a negative net result from transactions were to occur, the Government would have to borrow to fund services as well as infrastructure.<sup>340</sup>

The Committee notes that the net result from transactions has been generally declining over the last ten years, as can be seen in Figure 7.1. Although the 2011-12 Budget provides for a reduction in the growth in expenditure, it has not provided for a significant increase in the net result from transactions in 2011-12 or over the forward estimates, as can be seen from Figure 7.1. The Government has indicated that it is looking to the Final Report of the Independent

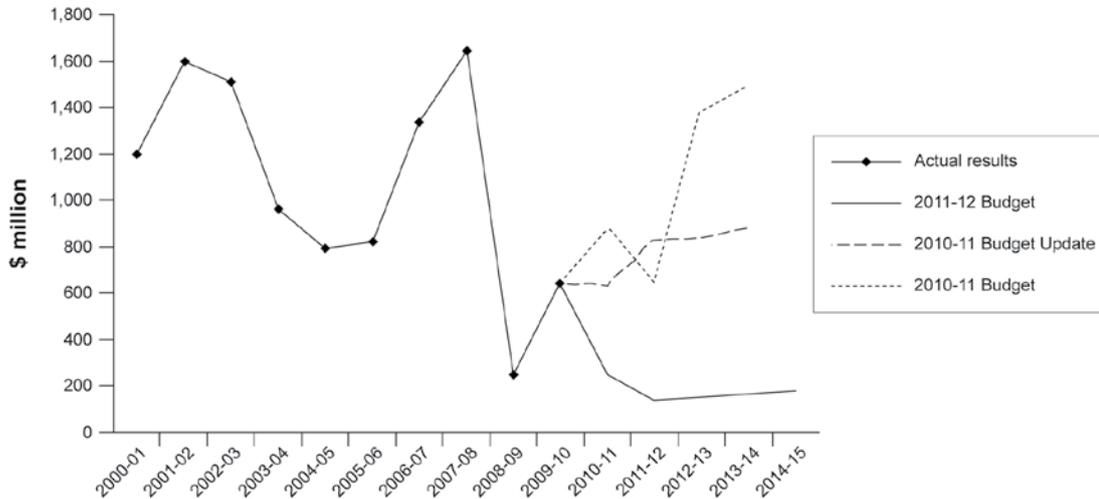
338 *ibid.*, p.5

339 Budget Paper No.3, 2011-12 Service Delivery, May 2011, p.95

340 Independent Review of State Finances, *Interim Report*, April 2011, pp.19-23

Review of State Finances (due in February 2012) for advice on increasing the net result from transactions in the medium term.<sup>341</sup>

**Figure 7.1 Net result from transactions, 2001-02 to 2014-15**



Source: *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, pp.249-52;*  
*2010-11 Budget Update, December 2010, p.15;*  
*Budget Paper No.4, 2010-11 Statement of Finances, May 2010, p.10*

Figure 7.1 also shows that the estimates for the net results from transactions over the forward estimates period are significantly lower in the 2011-12 Budget than the estimates in the 2010-11 Budget and the 2010-11 Budget Update. As the budget papers explain, the change compared to the 2010-11 Budget Update is primarily a result of decreased revenue from Commonwealth grants (particularly GST grants) and increased expenditure due to ‘policy decision variations’ (offset by the release of contingency provisions).<sup>342</sup> The change compared to the 2010-11 Budget includes both these changes and other factors accounted for primarily in the Pre-Election Budget Update. These include earlier increases in expenditure due to ‘policy decision variations’, additional administrative expenses and variations to Commonwealth grants for on-passing, partly mitigated by increased revenue expected from the Commonwealth and other sources.<sup>343</sup>

Comparing the estimates in the 2011-12 Budget to the 2010-11 Budget estimates, however, the Committee notes that the revenue estimates are not substantially different (as shown in Table 7.3). The main reason for the differences in the anticipated net result from transactions is that expenditure over the forward estimates period is estimated to grow at a faster rate in the 2011-12 Budget than had been previously estimated (see Table 7.3). As discussed above, the Government has reduced the rate at which expenditure is expected to grow compared to the rate at which it was growing in previous years. However, the rate of growth that the 2011-12 Budget anticipates over the forward estimates is significantly higher than what was anticipated at the time of the 2010-11 Budget.

341 *Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.25*

342 *ibid.*, p.48

343 Department of Treasury and Finance, *Victorian Pre-Election Budget Update*, November 2010, p.20

**Table 7.3: Estimates for revenue and expenses from transactions over the forward estimates, 2011-12 Budget estimates compared to 2010-11 Budget estimates**

|         | 2010-11 Budget          |                          |                            | 2011-12 Budget          |                          |                            |
|---------|-------------------------|--------------------------|----------------------------|-------------------------|--------------------------|----------------------------|
|         | Revenue<br>(\$ million) | Expenses<br>(\$ million) | Net result<br>(\$ million) | Revenue<br>(\$ million) | Expenses<br>(\$ million) | Net result<br>(\$ million) |
| 2010-11 | 45,759.3                | 44,887.4                 | 871.9                      | 45,438.3                | 45,188.9                 | 249.4                      |
| 2011-12 | 46,595.5                | 45,945.1                 | 650.4                      | 47,439.2                | 47,298.8                 | 140.4                      |
| 2012-13 | 49,169.1                | 47,781.5                 | 1,387.6                    | 48,806.9                | 48,657.1                 | 149.7                      |
| 2013-14 | 50,400.1                | 48,906.9                 | 1,493.2                    | 50,310.8                | 50,150.2                 | 160.6                      |

Sources: *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.9;*  
*Budget Paper No.4, 2010-11 Statement of Finances, May 2010, p.10*

One of the reasons for this is that the Government has provided for a significantly larger value of output initiatives in this budget than has been typical of recent years (see further Chapter 4). The bulk of these are election commitments (totalling \$4.4 billion of output initiatives, partly offset by \$1.6 billion of savings, over the five years to 2014-15<sup>344</sup>), which could not be known at the time of the 2010-11 Budget estimates (prior to the election). As the Treasurer explained at the budget estimates hearings, *‘We had a choice: fix the issue of debt in year 1, or implement our election commitments. We were elected to implement our election commitments, and that is what we had to do.’*<sup>345</sup>

The impact of the estimated expenditure levels and other factors on net debt is discussed in Section 6.8.3 of Chapter 6.

### **7.2.2 Break-down of general government sector expenditure for 2011-12**

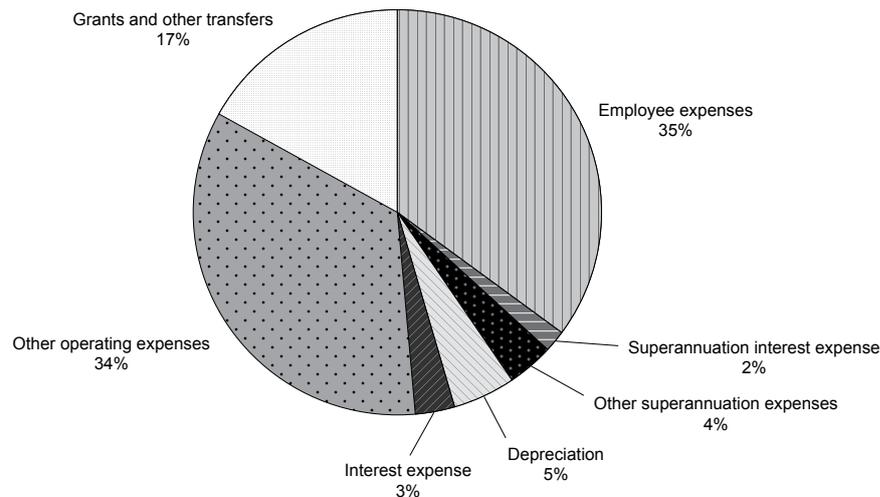
The \$47.3 billion estimated expenditure for 2011-12 is broken down in the budget papers into the categories shown in Figure 7.2. The bulk of expenditure is covered by three categories:

- ‘employee expenses’ (35 per cent);
- ‘other operating expenses’ (34 per cent); and
- ‘grants and other transfers’ (17 per cent).

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

345 Hon. K. Wells MP, Treasurer, 2011-12 budget estimates hearing, transcript of evidence, 6 May 2011, p.16; cf. Moody’s Investor Service, ‘Announcement: Moody’s Comments on the State of Victoria’s 2011/12 Budget’, 4 May 2011

**Figure 7.2 Break-down of estimated expenses from transactions for the general government sector for 2011-12**



Source: *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.9*

Given the large amount of expenditure that goes to ‘employee expenses’ and ‘other operating expenses’, each of these categories is discussed further in Sections 7.3.5 and 7.3.6 below.

The proportions spent in these different categories in 2011-12 is broadly similar to previous years and is expected to remain relatively similar over the forward estimates, although certain trends do appear (see Table 7.4). The most significant trends are:

- a slight growth in the proportion of expenditure on ‘employee expenses’, which the Government attributes to a combination of increases in the cost of wages and additional services being delivered;<sup>346</sup>
- a significant growth in the proportion of government expenditure going to ‘interest expense’, which is primarily explained by the increase in borrowing;<sup>347</sup>
- a peak in ‘other operating expenses’ in 2011-12, which has a number of causes, as there is a variety of different expenses included in this category;<sup>348</sup> and
- a steady decline in the proportion of money spent on ‘grants and other transfers’, which is due to funding in earlier years for the *Nation Building – Economic Stimulus Plan* and *Building the Education Revolution* initiatives winding down<sup>349</sup> and the cessation of grants for flood recovery and related activities to local governments.<sup>350</sup>

346 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.28

347 *ibid.*, p.29

348 *ibid.*; Budget Paper No.2, *2010-11 Strategy and Outlook*, May 2010, p.39

349 Budget Paper No.2, *2010-11 Strategy and Outlook*, May 2010, p.39

350 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.29

**Table 7.4: Proportions of expense categories for the general government sector, 2009-10 to 2014-15**

| Category                        | 2009-10<br>actual<br>(%) | 2010-11<br>revised<br>(%) | 2011-12<br>Budget<br>(%) | 2012-13<br>estimate<br>(%) | 2013-14<br>estimate<br>(%) | 2014-15<br>estimate<br>(%) |
|---------------------------------|--------------------------|---------------------------|--------------------------|----------------------------|----------------------------|----------------------------|
| Employee expenses               | 35.1                     | 35.6                      | 35.2                     | 35.7                       | 36.4                       | 36.6                       |
| Superannuation interest expense | 2.0                      | 2.1                       | 1.9                      | 1.9                        | 1.8                        | 1.7                        |
| Other superannuation expenses   | 3.5                      | 3.7                       | 3.6                      | 3.6                        | 3.5                        | 3.4                        |
| Depreciation                    | 4.3                      | 4.7                       | 5.0                      | 5.2                        | 5.3                        | 5.2                        |
| Interest expense                | 1.9                      | 2.2                       | 2.9                      | 4.0                        | 4.4                        | 4.5                        |
| Other operating expenses        | 32.4                     | 33.6                      | 34.4                     | 33.4                       | 32.6                       | 32.7                       |
| Grants and other transfers      | 20.9                     | 18.1                      | 17.1                     | 16.2                       | 16.0                       | 15.9                       |
| <b>Total</b>                    | <b>100.0</b>             | <b>100.0</b>              | <b>100.0</b>             | <b>100.0</b>               | <b>100.0</b>               | <b>100.0</b>               |

Source: Department of Treasury and Finance, 'Consolidated comprehensive operating statement', <[www.budget.vic.gov.au/CA25783300199E40/WebObj/OperatingStatementHistoricalGG/\\$File/OperatingStatementHistoricalGG.xls](http://www.budget.vic.gov.au/CA25783300199E40/WebObj/OperatingStatementHistoricalGG/$File/OperatingStatementHistoricalGG.xls)>, accessed 29 June 2011

The Committee noted in Part One of this report that the Government provides limited commentary on the reasons for changes in expenditure between the budget year and the previous year, and recommended that this be changed in future budgets.<sup>351</sup>

## 7.3 Departmental operating expenditure in 2011-12

### 7.3.1 Expenditure by department

There are significant variations between departments in terms of how much they expect to spend on operations in 2011-12 and in terms of the break-down of that expenditure. The total estimated controlled expenditure for each department is listed in Table 7.5. As can be seen from that table, the Department of Education and Early Childhood Development and Department of Health together account for 58 per cent of departmental operating expenditure. Overall, the five largest departments account for 89 per cent of departmental expenditure, with the remaining six departments and the Parliament together accounting for the remaining 11 per cent.

351 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, Recommendation 2, p.17

**Table 7.5: Estimated expenses from transactions in 2011-12 by department**

| Department                                | 2011-12 Budget<br>(\$ million) | Proportion of total<br>expenditure by<br>departments<br>(%) |
|---|--------------------------------|---|
| Business and Innovation                   | 667.7                          | 1.5   |
| Education and Early Childhood Development | 10,990.2                       | 25.3  |
| Health                                    | 14,084.7                       | 32.4  |
| Human Services                            | 3,394.0                        | 7.8   |
| Justice                                   | 4,430.2                        | 10.2  |
| Planning and Community Development        | 602.9                          | 1.4   |
| Premier and Cabinet                       | 630.2                          | 1.4   |
| Primary Industries                        | 530.7                          | 1.2   |
| Sustainability and Environment            | 1,515.6                        | 3.5   |
| Transport                                 | 5,963.9                        | 13.7  |
| Treasury and Finance                      | 517.5                          | 1.2   |
| Parliament                                | 152.9                          | 0.4   |
| <b>Total of the above</b>                 | <b>43,480.4</b>                | <b>100.0</b>  |
| General government sector <sup>(a)</sup>  | 47,298.8                       | n/a   |

Note: (a) see text below for explanation of the difference between the total of all departments and the figure for the general government sector

Source: Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p. 9 and Chapter 3

The Committee notes that the total expenditure for the 11 government departments and the Parliament as indicated in the departmental operating statements is \$43.5 billion. This differs considerably from the estimate for the total expenditure of the general government sector (\$47.3 billion).

This difference is partly due to the fact that certain expenses which are included in the general government sector total are not allocated to departments. These expenses include contingencies (\$342.2 million in 2011-12) and funding for general government sector agencies which receive less than half of their revenue from appropriations (\$2.0 billion in 2011-12).<sup>352</sup> The difference is also partly a result of the need for the Government to apply differing reporting standards for the presentation of information in the general government sector operating statement as opposed to the departmental operating statements.

In some cases, these differing reporting standards mean that expenses are included in the general government sector total expenditure figure which are not included in the departmental operating statements total expenditure figures. For example, administered items (such as grants which the departments pass on to other agencies, where the agencies and not the departments have responsibility for how the funding is spent) are included in the general government sector operating statement (consistent with Australian Accounting Standards

Board standards for reporting actual results).<sup>353</sup> However, since administered items are not controlled by departments nor available for their use, administered items are not included in the total expenditure figures in departmental operating statements but are reported on a departmental basis separately.

In other cases, amounts included in departmental operating statements total expenditure figures are not included in the general government sector total expenditure figure. In accordance with consolidation reporting principles, intra-sector transactions (such as payroll tax, the capital assets charge and inter-departmental transfers), which are included in departmental expenses in their operating statements, are deducted from departments' outlays in determining the total for the general government sector.<sup>354</sup> This elimination is necessary to disclose the actual level of spending expected to be incurred in the general government sector.

The Committee acknowledges that Note 12(b) to the general government sector operating statement provides some quantification of these differences by listing the total expenditure of each department including administered items and then quantifying the total of the 'eliminations and adjustments' deducted from departments' outlays.<sup>355</sup> The Committee also recognises that the reporting of budget data on operating expenditure in the general government sector is consistent with the principles embodied in the Australian Accounting Standards Board standards. Nevertheless, the Committee considers that the disclosure practices for operating expenditure in future budgets could be expanded to provide more detail of two significant line items in Note 12(b) – the expenditure on 'regulatory bodies and other part funded agencies' (\$2.0 billion in 2011-12); and the 'eliminations and adjustments' (\$51.0 billion in 2011-12). As a general principle, the Committee considers that more details than a one-sentence footnote should be provided for figures of this magnitude.

**Recommendation 60:** Future budget papers show a break-down of the estimated expense described as 'regulatory bodies and other part funded agencies' in Note 12(b) to the general government sector operating statement.

**Recommendation 61:** Future budget papers itemise the composition of the major deduction figures shown as 'eliminations and adjustments' in Note 12(b) to the general government sector operating statement.

To enable a reconciliation between the 'total expenses from transactions' for the general government sector and the 'total expenses from transactions' figures in each department's operating statement, and thereby provide a clear trail of expenditure, the Committee also considers that the 'eliminations and adjustments' due to intra-sector expenses should be broken down by department.

**Recommendation 62:** In the budget papers or the online supporting budget data sets, the Department of Treasury and Finance break down the 'eliminations and adjustments' figure by department.

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353 *ibid.*

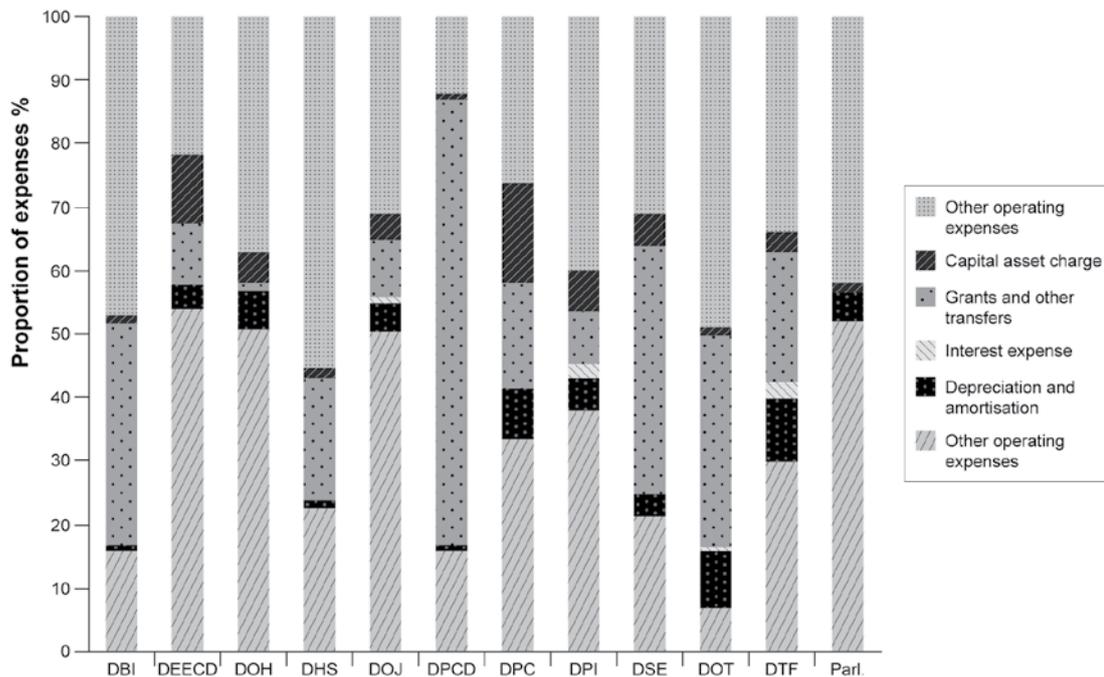
354 *ibid.*

355 *ibid.*

### 7.3.2 Comparison of departments' mix of expense types

In terms of the nature of the expenses incurred by departments, the Committee notes that there is a significant degree of variation from one department to another. Figure 7.3 compares departments with respect to the expense categories provided in the budget papers for departments.

**Figure 7.3 Break-down of departmental expenses for 2011-12**



Source: *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, Chapter 3*

There are significant variations between these departments with respect to all of the categories. Of particular interest is the variation between departments in terms of the proportions of expenditure on 'grants and other transfers' and 'employee benefits'. Some departments deliver their outputs largely through 'grants and other transfers'. This is most seen with the Department of Planning and Community Development, where 70 per cent of its expenditure is passed on through 'grants and other transfers'. In contrast, other departments (most notably the Department of Education and Early Childhood Development, Department of Health and Department of Justice) spend relatively high portions on employee benefits, reflecting the fact that they primarily deliver their services through salaried staff.

Whether services are delivered through grants, transfers or salaried staff, the Committee would expect in all cases that the department should have performance measures related to the outcomes sought to be achieved and to the quantity, quality, timeliness and cost of the services.<sup>356</sup> However, in the case of departments where a large proportion of their services are delivered through grants, the Committee considers that it is appropriate for there to also be

measures specifically related to the department's effectiveness at managing service delivery through grants.

Thus, the Department of Planning and Community Development has a number of measures to assess its effectiveness at managing grants programs, such as the proportions of:<sup>357</sup>

- grants acquitted within the timeframe specified in the terms and conditions of the funding agreement;
- grant projects meeting agreed project objectives; and
- grant payments made against the completion of milestones in funding agreements.

The Committee acknowledges that, in some cases, expenditure on 'grants and other transfers' may reflect transfers of funds to other State government agencies or local governments. In cases where significant sums are passed on as grants for particular projects, however, the Committee considers that departments have an obligation to ensure that this money is spent in accordance with the provisions of funding agreements. To provide transparency that this is taking place, the Committee considers that departments in this category should consider introducing performance measures similar to those used by the Department of Planning and Community Development.

**Recommendation 63: Departments which pass on large amounts of grants for specific purposes should give consideration to including performance measures in the budget papers to assess the departments' effectiveness at managing service delivery through grants.**

### **7.3.3 Variations in departments' expenditure in certain categories between 2010-11 and 2011-12**

When comparing the break-down of expenditure by nature for 2011-12 with 2010-11, the Committee notes some significant changes for three departments and for the Parliament. These are discussed below and explained so far as the Committee is able.

However, while explanations are provided for changes to expenditure by function (i.e. the services funded) in Budget Paper No.3 (*Service Delivery*), changes to expenditure by nature (i.e. what sorts of expenses were incurred in delivering services) are not explained in the budget papers. In some cases, it is possible to get some understanding of the change from the explanations provided for variations in expenditure by function. The Committee was able to supplement this information with data from its budget estimates questionnaire in other instances. However, as this section demonstrates, it is difficult to understand the reasons or implications of the changes for some departments. The Committee considers that there is public benefit in explaining these changes, as it is not currently clear whether the changes are the result of the Budget altering the way that these agencies are expected to deliver services, altering the services that they are expected to deliver or whether other factors are causing the changes.

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357 Budget Paper No.3, 2011-12 *Service Delivery*, May 2011, pp.264-76

**Recommendation 64: Future budget papers provide explanations for major changes (between the budget year and the revised estimates for the previous year) to the estimated expenditure in each of the categories into which expenditure is broken down in the departmental operating statements.**

### ***Department of Business and Innovation***

As Table 7.6 shows, there has been a significant reduction in the proportion of expenditure attributed to ‘employee benefits’ and a rise in the proportion of expenditure attributed to ‘grants and other transfers’ and ‘other operating expenses’ in the Department of Business and Innovation. The change in the proportions can be understood in the context of machinery of government changes, which have transferred two output groups to other departments and reduced the Department’s total budget by 61 per cent compared to the 2010-11 revised estimates and by 74 per cent compared to the 2010-11 Budget.<sup>358</sup>

As a result of this restructure, the equivalent full-time number of employees was reduced from 1,041.2 at 30 June 2010 to 790.7 at 30 June 2011.<sup>359</sup> The Department explained that, when the machinery-of-government changes are factored in, the 2011-12 target for employee expenses is only \$2.2 million less than the expected outcome for 2010-11.<sup>360</sup>

**Table 7.6: Expenditure in major categories for the Department of Business and Innovation, 2010-11 to 2011-12**

|                            | <b>2010-11 revised estimates</b><br>(\$ million) | <b>2011-12 Budget</b><br>(\$ million) | <b>2010-11 revised estimates</b><br>(% of total expenditure) | <b>2011-12 Budget</b><br>(% of total expenditure) |
|----------------------------|--|---------------------------------------|--|---|
| Employee benefits          | 574.6  | 105.3                                 | 33.3   | 15.8  |
| Grants and other transfers | 474.7  | 232.7                                 | 27.5   | 34.9  |
| Other operating expenses   | 515.5  | 314.1                                 | 29.9   | 47.1  |

Source: *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.78*

However, the Committee notes that the Department after the restructure passes on a larger portion of its funding through grants. In this context, the Committee re-iterates its recommendation above that the Department should consider whether it needs to introduce performance measures related to its effectiveness at managing service delivery via grants.

The Committee also notes the large increase in the proportion of expenditure concentrated in the category of ‘other operating expenses’. The Department of Business and Innovation has previously (as the Department of Innovation, Industry and Regional Development) provided a detailed break-down of this category in its annual report. The Committee looks forward to understanding the change in the proportion of money spent on this category from the Department’s future annual reports.

358 *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.78*

359 Department of Business and Innovation, response to the budget estimates questionnaire — part B, received 9 May 2011, q.15

360 *ibid.*, p.12

## Department of Primary Industries

In the case of the Department of Primary Industries, there has been a significant decrease in the amount of expenditure on ‘grants and other transfers’, with the estimate for that category decreasing from \$127.2 million (2010-11 revised estimate) to \$45.6 million in 2011-12.<sup>361</sup> The Committee notes that there have been some significant shifts in the output costs for the Department between 2010-11 and 2011-12.<sup>362</sup> However, in the absence of more detail, the Committee is unable to determine the cause of the decline in ‘grants and other transfers’.

## Department of Treasury and Finance

The Department of Treasury and Finance has experienced the opposite effect to the Department of Primary Industries, experiencing significant growth in the amount of money budgeted for ‘grants and other transfers’. The growth in this amount between the 2010-11 revised estimate and the 2011-12 Budget is significant (from \$70.6 million to \$105.8 million), but this growth becomes even more significant when compared to earlier years, as can be seen from Table 7.7. This table also shows that the growth in ‘grants and other transfers’ has been accompanied by a significant growth in the Department’s overall budget, indicating that, in the last year and in this budget, a significant new element of being a grant provider has been added to the Department’s operations.

**Table 7.7: Department of Treasury and Finance’s budget for ‘grants and other transfers’ and overall budget, 2007-08 to 2011-12**

|                                  | 2007-08<br>actual | 2008-09<br>actual | 2009-10<br>actual | 2010-11<br>revised<br>estimate | 2011-12<br>Budget |
|----------------------------------|-------------------|-------------------|-------------------|--------------------------------|-------------------|
|                                  | (\$ million)      | (\$ million)      | (\$ million)      | (\$ million)                   | (\$ million)      |
| Grants and other transfers       | -4.2              | 0.9               | 16.2              | 70.6                           | 105.8             |
| Total expenses from transactions | 311.6             | 338.3             | 431.5             | 460.4                          | 517.5             |

Sources: *Budget Paper No.4, 2009-10 Statement of Finances, May 2009, p.179;*  
*Budget Paper No.4, 2010-11 Statement of Finances, May 2010, p.190;*  
*Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.133*

It is not apparent from the budget papers what this additional expenditure is being used for. In this context, the Committee notes that, as discussed in Section 7.3.4 below, more than half of the Department of Treasury and Finance’s budget is not accounted for in the output groups, which compounds the difficulty of understanding this growth in ‘grants and other transfers’ administered by the Department.

However, the Committee notes that the *Community Support Fund* (which provides a variety of grants) was transferred to the Department of Treasury and Finance as a machinery-of-government change in 2011,<sup>363</sup> and this new responsibility is at least partly responsible for the increase in expenditure in the ‘grants and other transfers’ category.

361 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.117

362 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.295

363 Department of Treasury and Finance, ‘About the Community Support Fund’ <[www.dtf.vic.gov.au/CA25713E0002EF43/pages/community-support-fund-about-the-community-support-fund](http://www.dtf.vic.gov.au/CA25713E0002EF43/pages/community-support-fund-about-the-community-support-fund)>, accessed 4 August 2011

## Parliament

The Committee also notes that the Parliament has experienced a significant shift in its expenditure, with a decrease in ‘employee benefits’ and an increase in ‘other operating expenses’ (see Table 7.8).

**Table 7.8: Expenditure in major categories for the Parliament, 2010-11 to 2011-12**

|                          | 2010-11 revised estimates<br>(\$ million) | 2011-12 Budget<br>(\$ million) | Change, 2010-11 to 2011-12<br>(%) |
|--------------------------|---|--------------------------------|-----------------------------------|
| Employee benefits        | 96.3                                      | 79.4                           | -17.5                             |
| Other operating expenses | 53.9                                      | 64.4                           | 19.5                              |

Source: *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.140*

The Committee notes that the decrease in employee benefits is probably explained by a note to the departmental output cost summary, which indicates that a reduction in funding has occurred ‘*due to a three year actuarial assessment of members defined benefits superannuation costs ... which has not yet been completed.*’<sup>364</sup> The Committee sought explanations for the changes to both ‘employee benefits’ and ‘other operating expenses’ in the budget estimates questionnaire (which the Committee notes was received after the release of the budget papers containing the information in Table 7.8). The questions and the Parliamentary Departments’ response are reproduced below:<sup>365</sup>

*Question 6.2: In relation to expenses from transactions that relate to ‘Employee Benefits’, please explain any variations of more than 10 per cent between the expected outcome for 2010-11 and the target for 2011-12.*

*Response: Nil*

*Question 6.3(b): Please explain any variations of more than 10 per cent between the expected outcome for 2010-11 and the target for 2011-12 for these major components [of the Department’s expected expense on ‘other operating expenses’].*

*Response: We do not expect variations greater than 10% for the 2011-12 budget.*

Given that the variations for ‘employee benefits’ and ‘other operating expenses’ were both well in excess of 10 per cent, the Committee is very disappointed by these responses. The Committee’s ability to provide accurate information to the Parliament and the community about the budget estimates is in part dependent on the accuracy and completeness of departments’ responses to the Committee’s questionnaire. Where requested information is not provided, the Committee’s capabilities are hampered.

364 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.371

365 Parliamentary Departments, response to the 2011-12 budget estimates questionnaire — parts A and B, received 4 May 2011, pp.9-10

**Recommendation 65:** In future responses to the Committee’s budget estimates questionnaires, the Parliamentary Departments ensure that they provide accurate and complete responses to questions seeking explanations for variances in expenditure.

### 7.3.4 Expenditure on outputs

Table 7.9 shows that, for most departments, the ‘total expenses from transactions’ shown in the departmental operating statement is equal to the ‘total output costs’ shown in the departmental output statement. That is, in most cases, departmental expenditure is fully accounted for in terms of the outputs to be delivered. As can be seen from Table 7.9, however, there are differences between these two amounts in seven cases, with a total of \$1.3 billion of departmental expenditure not accounted for in terms of the outputs planned to be delivered.

**Table 7.9: Total expenses from transactions compared to total output costs, by department, for 2011-12**

| Department                                | Total expenses from transactions<br>(\$ million) | Total output cost<br>(\$ million) | Difference<br>(\$ million) |
|---|--|-----------------------------------|----------------------------|
| Business and Innovation                   | 667.7  | 667.7                             | 0.0                        |
| Education and Early Childhood Development | 10,990.2   | 10,990.2                          | 0.0                        |
| Health                                    | 14,084.7   | 13,066.1                          | -1,018.6                   |
| Human Services                            | 3,394.0  | 3,375.0                           | -19.0                      |
| Justice                                   | 4,430.2  | 4,430.3                           | 0.1                        |
| Planning and Community Development        | 602.9  | 576.6                             | -26.3                      |
| Premier and Cabinet                       | 630.2  | 631.4                             | 1.2                        |
| Primary Industries                        | 530.7  | 530.7                             | 0.0                        |
| Sustainability and Environment            | 1,515.6  | 1,515.6                           | 0.0                        |
| Transport                                 | 5,963.9  | 5,963.9                           | 0.0                        |
| Treasury and Finance                      | 517.5  | 239.3                             | -278.2                     |
| Parliament                                | 152.9  | 152.8                             | -0.1                       |
| <b>Total</b>                              | <b>43,480.4</b>                                  | <b>42,139.6</b>                   | <b>-1,340.8</b>            |

Sources: *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, Chapter 3;*  
*Budget Paper No.3, 2011-12 Service Delivery, May 2011, Chapter 3*

The Committee notes that Budget Paper No.3 (2011-12 Service Delivery) includes a note at the end of each table summarising the department's total output cost explaining that:<sup>366</sup>

*Total output cost for 2011-12 Budget may not equate to the total expense reported in Budget Paper No. 5, Chapter 3 Departmental financial statements due to additional expenses in Budget Paper No. 5 that are not included in departmental output costs.*

The Committee notes that this explanation of additional expenses in Budget Paper No.5 does not account for the two departments in which the expenses in Budget Paper No.5 were *less than* the total output costs (the Department of Justice and Department of Premier and Cabinet).

In four cases, the differences between the total output cost and the total expenses from transactions are significant. In particular, for the Department of Health, this difference exceeds \$1.0 billion. For the Department of Treasury and Finance, the expenditure not accounted for by output expenditure is more than the total cost of the outputs. Especially in these cases, the Committee does not consider that the explanatory note in the budget papers that this is '*due to additional expenses ... not included in departmental output costs*' is sufficient to meet the information needs of the Parliament and the community.

**Recommendation 66: In future budget papers, where a department's total expenses from transactions differs from its total output cost, details be provided which:**

- (a) **quantify the difference; and**
- (b) **explain what the expenditure not accounted for in the output cost is.**

### 7.3.5 Employee expenses

In previous years, the budget papers have specified that the category 'employee expenses' in the general government sector operating statement includes '*all costs related to employment (other than superannuation which is accounted for separately) including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments and WorkCover premiums.*'<sup>367</sup> Although this is not specified in the 2011-12 budget papers,<sup>368</sup> the Committee assumes that the definition of this category has not changed for 2011-12.

Across the general government sector, \$16.6 billion (35 per cent of the total expenses) is expected to be spent on 'employee expenses' in 2011-12, and an additional \$2.6 billion (5 per cent) on superannuation-related expenses. The allowance for 'employee expenses' in

366 for some departments, the explanation varies slightly, indicating that the difference is due to '*additional statements in Budget Paper No. 5*' rather than '*additional expenses in Budget Paper No. 5*' – the Committee assumes that this is not a material difference

367 Budget Paper No.4, 2010-11 Statement of Finances, May 2010, p.27

368 see Chapter 3 above

2011-12 is 3.5 per cent higher than the revised estimate for 2010-11, and is expected to rise to \$19.0 billion by 2014-15, an average growth rate of 4.5 per cent per annum.<sup>369</sup>

There are a number of factors contributing to the growth in ‘employee expenses’, including increases due to:

- growth in the cost of wages, which the Government has stated should be 2.5 per cent per annum ‘*unless accompanied by productivity gains*’;<sup>370</sup> and
- an increase in employee numbers in certain fields, including police, protective services officers and child protection staff, due to Victorian Government policy decisions and Commonwealth funding variations.<sup>371</sup>

Those factors are partly offset by:

- a reclassification of some expenditure from ‘employee expenses’ to ‘purchases of services’ (included in ‘other operating expenses’) to more accurately reflect the nature of the expense;<sup>372</sup> and
- initiatives to decrease ministerial staff, to reduce the number of media and marketing positions and to cap head office staff, which together are expected to reduce costs by an average of \$56.0 million per annum between 2011-12 and 2014-15.<sup>373</sup>

The savings initiatives are discussed further in Section 4.5 of Chapter 4.

### **Wage rises**

With respect to the Government’s wages policy, the Committee notes that the 2.5 per cent per annum allowed for is in line with the Government’s estimate for the increase in consumer price index between 2012-13 and 2014-15 but below the estimate for the wage price index (3.5 per cent per annum) over the same period.<sup>374</sup> The Minister for Finance has indicated that the 2.5 per cent increase is a ‘*starting point guidance*’, explaining that:<sup>375</sup>

*We are more than happy to arrive at a figure above the 2.5 per cent starting point guideline, as long as it is accompanied by genuine productivity savings. We would welcome that, because we are looking for a flexible, innovative and productive workforce.*

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369 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.26

370 Budget Paper No.1, *2011-12 Treasurer’s Speech*, May 2011, p.3

371 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.28;  
Hon. T. Baillieu, response to questions on notice, correspondence received 28 July 2011, p.1

372 Hon. T. Baillieu, response to questions on notice, correspondence received 28 July 2011, p.1

373 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.92

374 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.9

375 Victorian Parliamentary Debates, Legislative Assembly, book 5, 6 April 2011, p.950

The Minister further explained at the budget estimates hearings that the productivity savings were not intended to include either a diminution of service delivery or staff redundancies.<sup>376</sup>

At the budget estimates hearings, the Committee asked questions of various ministers in relation to the practicability of such productivity savings for particular professions. Ministers indicated that the details of any productivity savings that could lead to increases in wages will be examined during the re-negotiations of enterprise bargaining agreements that are scheduled for 2011.<sup>377</sup> These include the agreements for police, nurses, teachers and the public service.<sup>378</sup> The Minister for Education explained, *‘The whole concept of the wage negotiations, and class sizes as part of that, the definitions of what productivity might be or might look like are part of EBA negotiations ...’*<sup>379</sup>

Noting that ‘employee expenses’ is the largest category of expense for the general government sector, the Committee considers that the outcome of these negotiations and their impact will be significant, and considers that next year’s budget papers should detail the changes that result from the enterprise bargaining agreements and any productivity savings targets that are established as part of that process.

**Recommendation 67: The 2012-13 budget papers detail the effects of enterprise bargaining agreements established in 2011-12, including:**

- (a) **quantifying the effects of the agreements on estimates for ‘employee expenses’; and**
- (b) **detailing any productivity savings targets established as part of the process.**

### **Staff numbers**

In the budget estimates questionnaire, the Committee sought details of the equivalent full-time (EFT)<sup>380</sup> staff numbers anticipated at 30 June 2010, 30 June 2011 and 30 June 2012. The responses can be seen in Table 7.10. Overall, there is expected to be a 2.3 per cent growth in the total EFT number between June 2010 and June 2011, and a 1.3 per cent growth between June 2011 and June 2012.

In line with the Minister for Finance’s comments that neither a diminution of service delivery nor staff redundancies are planned,<sup>381</sup> the Committee notes that the EFT numbers are expected to increase in all sectors except for ‘other agencies’. The largest areas of growth are in the frontline of service delivery – health services, police and, to a lesser extent, teaching. The

376 Hon. R. Clark MP, Minister for Finance, 2011-12 budget estimates hearing, transcript of evidence, 13 May 2011, p.8

377 Hon. P. Ryan MP, Minister for Police and Emergency Services, 2011-12 budget estimates hearing, transcript of evidence, 12 May 2011, p.16

378 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.36

379 Hon. M. Dixon MP, Minister for Education, 2011-12 budget estimates hearing, transcript of evidence, 11 May 2011, p.10

380 equivalent full-time numbers count a person working part-time as a fraction of 1 – the fraction is based on the number of hours worked as a proportion of the number of hours that would be worked in a full-time position

381 Hon. R. Clark MP, Minister for Finance, 2011-12 budget estimates hearing, transcript of evidence, 13 May 2011, p.8

Committee notes that the police sector is expected to continue growing significantly over the forward estimates period, as additional police and protective services officers are hired.<sup>382</sup>

Growth is also expected to occur within the public service, but at a slower rate than these frontline services. This is in line with the *Capping Head Office Staff* initiative in the 2011-12 Budget,<sup>383</sup> the intention of which was described prior to the election as ‘to cap the number of head office staff across government and ensure growth in staff only occurs in priority areas and frontline services.’<sup>384</sup>

**Table 7.10: General government sector workforce growth, 2010 to 2012**

|                             | 30 June 2010<br>(EFT number) <sup>(a)</sup> | 30 June 2011<br>(EFT number) <sup>(a)</sup> | 30 June 2012<br>(EFT number) <sup>(a)</sup> |
|-----------------------------|---|---|---|
| Victorian public service    | 32,636.5                                    | 33,032.0                                    | 33,227.9                                    |
| Government Teaching Service | 53,255.6                                    | 54,060.0                                    | 54,400.0                                    |
| Health services             | 74,414.0                                    | 76,504.0                                    | 78,034.0                                    |
| Police                      | 14,380.5                                    | 15,103.9                                    | 15,619.6                                    |
| Other agencies              | 5,245.8                                     | 5,317.1                                     | 5,181.6                                     |
| <b>Total</b>                | <b>179,932.5</b>                            | <b>184,016.9</b>                            | <b>186,463.0</b>                            |

Note: (a) equivalent full-time numbers

Sources: departmental responses to the budget estimates questionnaire — part B, q.15, with modification as advised by the Department of Business and Innovation, correspondence received 23 August 2011

Last year, in its *Report on the 2010-11 Budget Estimates*, the Committee noted that three departments failed to supply data for the budget year in response to the 2010-11 budget estimates questionnaire, and recommended that all departments ensure that data are available in the future.<sup>385</sup> The Committee is very pleased to note that all departments supplied data this year in response to the 2011-12 questionnaire.

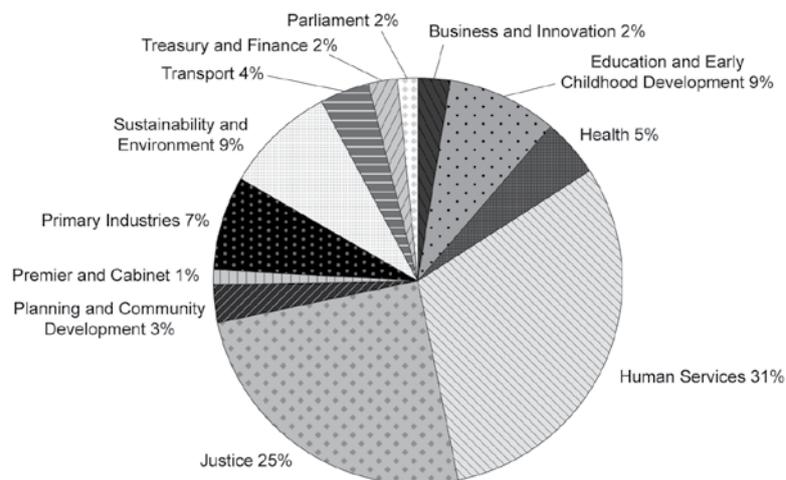
In terms of the Victorian public service, Figure 7.4 provides a break down of the proportions of EFT staff numbers by department as at 30 June 2011. The Department of Human Services and the Department of Justice are the largest employers of public service staff, although it is important to note that this does not include health services or the Government Teaching Service.

382 details of the timing and numbers of staff involved have been provided by Minister Ryan – see Hon. P. Ryan MP, Minister for Police and Emergency Services, 2011-12 budget estimates hearing, transcript of evidence, 12 May 2011, pp.17-18 and Department of Justice, response to questions on notice, correspondence received 27 June 2011

383 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.92

384 Liberal Victoria and The Nationals, *The Victorian Liberal Nationals Coalition Plan for Better Financial Management*, 2010, p.17

385 Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates — Part Three*, September 2010, p.137

**Figure 7.4 Distribution of staff (EFT) across Government departments, as at 30 June 2011**

*Note:* excludes the Government Teaching Service, health services, police and major budget-funded agencies

*Sources:* departmental responses to the budget estimates questionnaire – part B, q.15

The Committee notes that relatively little change to the EFT number of public service employees is expected between 2011 and 2012, with an overall increase of 0.6 per cent and relatively small fluctuations for each department (see Table 7.11).

**Table 7.11: Departmental staff numbers by department, 2011 to 2012**

| Department                                | 30 June 2011<br>(EFT number) | 30 June 2012<br>(EFT number) | Change<br>(per cent) |
|---|------------------------------|------------------------------|----------------------|
| Business and Innovation                   | 790.7                        | 763.2                        | -3.5                 |
| Education and Early Childhood Development | 2,853.0                      | 2,738.0                      | -4.0                 |
| Health                                    | 1,601.9                      | 1,601.9                      | 0.0                  |
| Human Services                            | 10,280.8                     | 10,406.9                     | 1.2                  |
| Justice                                   | 8,152.4                      | 8,369.4                      | 2.7                  |
| Planning and Community Development        | 982.1                        | 963.4                        | -1.9                 |
| Premier and Cabinet                       | 428.4                        | 443.4                        | 3.5                  |
| Primary Industries                        | 2,409.1                      | 2,409.1                      | 0.0                  |
| Sustainability and Environment            | 3,005.0                      | 2,993.9                      | -0.4                 |
| Transport                                 | 1,220.0                      | 1,220.0                      | 0.0                  |
| Treasury and Finance                      | 718.8                        | 729.8                        | 1.5                  |
| Parliament                                | 589.8                        | 588.8                        | -0.2                 |
| <b>Total</b>                              | <b>33,032.0</b>              | <b>33,227.9</b>              | <b>0.6</b>           |

*Note:* excludes the Government Teaching Service, health services, police and major budget-funded agencies

*Sources:* departmental responses to the budget estimates questionnaire — part B, q.15, with modification as advised by the Department of Business and Innovation, correspondence received 23 August 2011

In terms of the break-down of these positions by grade, the Committee notes that, for most grades, minimal change is expected between 2011 and 2012 (see Table 7.12). In accordance with the Government's intentions to 'cap head office staff', almost all of the growth that is expected to occur is expected in frontline delivery roles, most notably child protection workers and custodial officers. This growth in frontline staff is partly offset by small reductions in Victorian public service (VPS) staff (which includes most 'head office staff') at most levels.

**Table 7.12: Departmental staff numbers by grade, 2011 to 2012**

| Grade                                     | 30 June 2011<br>(EFT number) | 30 June 2012<br>(EFT number) | Change<br>(per cent) |
|---|------------------------------|------------------------------|----------------------|
| Secretaries and Executive Officers        | 601.8                        | 592.2                        | -1.6                 |
| VPS Grade 7 (Senior Technical Specialist) | 103.0                        | 102.7                        | -0.3                 |
| VPS Grade 6                               | 3,408.5                      | 3,408.9                      | 0.0                  |
| VPS Grade 5                               | 4,979.0                      | 4,964.9                      | -0.3                 |
| VPS Grade 4                               | 3,907.1                      | 3,919.5                      | 0.3                  |
| VPS Grade 3                               | 3,987.0                      | 3,912.8                      | -1.9                 |
| VPS Grade 2                               | 2,738.2                      | 2,717.8                      | -0.7                 |
| VPS Grade 1                               | 128.5                        | 127.9                        | -0.5                 |
| Allied health professionals               | 953.8                        | 956.5                        | 0.3                  |
| Child protection                          | 1,553.6                      | 1,625.6                      | 4.6                  |
| Disability development and support        | 4,314.5                      | 4,357.7                      | 1.0                  |
| Custodial officers                        | 1,784.1                      | 1,878.1                      | 5.3                  |
| Other                                     | 4,572.9                      | 4,645.2                      | 1.6                  |
| <b>Total</b>                              | <b>33,032.0</b>              | <b>33,227.9</b>              | <b>0.6</b>           |

*Note:* excludes the Government Teaching Service, health services, police and major budget-funded agencies

*Sources:* departmental responses to the budget estimates questionnaire — part B, q.15, with modification and additional data as advised by the Department of Business and Innovation, correspondence received 23 August 2011 and Department of Justice, correspondence received 24 August 2011

The Committee also sought data on the proportions of EFT staff employed in ongoing, fixed-terms and casual capacities. The data supplied indicate relatively little variation from 2010 to 2012 (see Table 7.13), with the exception of a reduction in the proportion of fixed-term staff.

**Table 7.13: Proportions of departmental staff in ongoing, fixed-term and casual employment, 2010 to 2012**

|              | 30 June 2010<br>(per cent) | 30 June 2011<br>(per cent) | 30 June 2012<br>(per cent) |
|--------------|----------------------------|----------------------------|----------------------------|
| Ongoing      | 83.1                       | 85.0                       | 85.3                       |
| Fixed-term   | 13.6                       | 11.8                       | 11.4                       |
| Casual       | 3.3                        | 3.2                        | 3.3                        |
| <b>Total</b> | <b>100.0</b>               | <b>100.0</b>               | <b>100.0</b>               |

Note: excludes funded vacancies, as most departments did not supply data for this category

Sources: departmental responses to the budget estimates questionnaire — part B, q.15

### 7.3.6 Other operating expenses

Across the general government sector, a total of \$16.3 billion of expenditure is classified as ‘other operating expenses’ in the 2011-12 operating statement.<sup>386</sup> This equates to 34 per cent of the total expenses from transactions. The departmental operating statements also contain the same expense category and in those the proportion of total expenses classified as ‘other operating expenses’ in the 2011-12 Budget varies from 12 per cent (the Department of Planning and Community Development) to 56 per cent (the Department of Human Services).<sup>387</sup> Given the size of this expense category, the Committee was interested to understand the category in more detail.

The budget papers provide some additional detail in a note to the general government sector operating statement, which breaks down the ‘other operating expenses’ to a further seven sub-categories.<sup>388</sup> The Committee notes that this is a new feature in the 2011-12 Budget and commends the Government for its introduction.

However, of the seven sub-categories into which this ‘other operating expenses’ is broken down, almost 90 per cent of the 2011-12 total (\$14.5 billion) is covered by just two categories. Moreover, these categories provide relatively little information about what exactly the funds are spent on. They are ‘purchase of supplies and consumables’ and ‘purchase of services’.

In terms of the operating statements provided for each department in the budget papers, there are no notes breaking ‘other operating expenses’ into more detailed sub-categories. The Committee acknowledges, though, that the model financial report for departments suggests eighteen sub-categories into which this can be broken down in departments’ annual reports<sup>389</sup> and almost all departments do provide some break-down of this category, though into differing numbers of sub-categories. In some cases, departments do not have an ‘other operating expenses’ category in their operating statements, but have additional categories as line items in their operating statements, especially ‘supplies and services’. In some cases, the line item ‘supplies and services’ is then further broken down into sub-categories in notes to the statement.

386 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.9

387 *ibid.*, pp.94, 105

388 *ibid.*, p.29

389 Department of Treasury and Finance, *2010-11 Model Report for Victorian Government Departments*, March 2011, p.148

The Committee was particularly impressed by the sub-categories used by the former Department of Innovation, Industry and Regional Development (now the Department of Business and Innovation) in its *2009-10 Annual Report*, which broke down ‘supplies and services’ into the following:<sup>390</sup>

- consultants and professional services;
- contract and service payments;
- accommodation expenses;
- marketing and media expenses;
- computer services and equipment;
- travel and related expenses;
- postage and communications;
- stationery and office requisites;
- educational expenses;
- meeting expenses;
- books and publications;
- motor vehicle expenses;
- audit costs (internal and external); and
- other expenses.

The Committee considers that these sub-categories are clear and meaningful. The budget papers would be improved by breaking down the figures provided for ‘purchase of supplies and consumables’ and ‘purchase of services’ into similar sub-categories to these. It would then be appropriate for the annual financial report for the State to report on the actual results in these sub-categories compared to the estimates in the budget papers.

This change would increase the transparency of government expenditure in areas where substantial amounts of funding are expended and which are of significant interest to the Parliament and the public. This change would also be particularly appropriate in the context of the Government’s election commitment savings initiatives, a number of which target expenditure categories similar to those listed above.<sup>391</sup> Indeed, the Committee notes that the majority of the Government’s \$1.6 billion of election commitment savings are for expenses included in ‘other operating expenses’. Given the size and importance of these savings, the Committee considers it essential that there be the means for public scrutiny of the Government’s future achievement of these targeted savings in the categories that the Government itself has set.

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390 Department of Innovation, Industry and Regional Development, *2009-10 Annual Report*, p.60

391 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.92

**Recommendation 68:** Future budget papers contain a more detailed break-down of the expense category ‘other operating expenses’ than is currently provided. In developing a more detailed break-down, the Department of Treasury and Finance should consider the sub-categories used in the Department of Innovation, Industry and Regional Development’s *2009-10 Annual Report*.

**Recommendation 69:** Any changes to the sub-categories into which ‘other operating expenses’ are broken down in the budget papers be matched by equivalent improvements in the reporting of actual expenditure in the annual financial report for the State.

In terms of each department’s expenditure on ‘other operating expenses’, the Committee notes that there are some significant changes in the amounts allocated for each department in 2011-12 compared to the revised estimate for expenditure in 2010-11 (see Table 7.14).

**Table 7.14: Expenditure on ‘other operating expenses’ by department, 2011-12**

| Department                                | 2010-11 revised estimate<br>(\$ million) | 2011-12 Budget<br>(\$ million) | Change from 2010-11 to 2011-12<br>(%) |
|---|--|--------------------------------|---------------------------------------|
| Business and Innovation                   | 515.5                                    | 314.1                          | -39.1                                 |
| Education and Early Childhood Development | 2,176.4                                  | 2,380.1                        | 9.4                                   |
| Health                                    | 4,963.0                                  | 5,216.4                        | 5.1                                   |
| Human Services                            | 1,698.3                                  | 1,886.5                        | 11.1                                  |
| Justice                                   | 839.9                                    | 902.1                          | 7.4                                   |
| Planning and Community Development        | 95.9                                     | 73.3                           | -23.6                                 |
| Premier and Cabinet                       | 170.8                                    | 166.4                          | -2.6                                  |
| Primary Industries                        | 210.8                                    | 212.8                          | 0.9                                   |
| Sustainability and Environment            | 441.8                                    | 471.4                          | 6.7                                   |
| Transport                                 | 2,734.1                                  | 2,929.3                        | 7.1                                   |
| Treasury and Finance                      | 178.8                                    | 175.9                          | -1.6                                  |
| Parliament                                | 53.9                                     | 64.4                           | 19.5                                  |
| <b>Total of the above</b>                 | <b>14,079.2</b>                          | <b>14,792.7</b>                | <b>5.1</b>                            |
| General government sector <sup>(a)</sup>  | 15,204.3                                 | 16,261.6                       | 7.0                                   |

Note: (a) includes additional expenditure not included in departmental operating statements, as discussed in Section 7.3.1 above

Sources: Budget Paper No.5, 2011-12 Statement of Finances, May 2011, Chapter 3;  
Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.26

Four departments had variations over 10 per cent between 2010-11 and 2011-12. The variations in the Department of Business and Innovation and the Parliament's budgets have been discussed above in Section 7.3.2. The other two departments cited changes to particular programs – the Department of Planning and Community Development explained that the change in its budget was '*largely as a result of funding sunseting for some Central Activity Areas*'<sup>392</sup> and the Department of Human Services explained that its variation '*primarily reflects the Government's election commitment to extend the Winter Energy Concession for Victorian concession card holders from six months to all year round.*'<sup>393</sup>

Overall, departments indicated in their responses to the questionnaire that alterations to their budget for 'other operating expenses' were primarily driven by two factors:

- changes to programs to be delivered; and
- government savings initiatives.

The diverse nature of this expenditure category means that a variety of factors may contribute to changes in departments' targets for this category from one year to another. However, given that this category has demonstrably covered up to 56 per cent of a department's budget in 2011-12, the Committee considers that it is appropriate for the Parliament and the community to be informed in detail on the composition of departments' expenditure increases or decreases with respect to this expenditure category. With this in mind, the Committee considers that departmental annual reports should provide a more detailed break-down of this category, with explanations for significant variations from the previous year. The Committee suggests that the categories should be similar to those suggested for the budget papers and annual financial report for the State.

**Recommendation 70: The model financial report for departments be modified to recommend the use of the same sub-categories to break down 'other operating expenses' that are developed for use in the budget papers and annual financial report for the State.**

### **7.3.7 Investigations to be conducted in 2011-12**

One type of expenditure which is not detailed in the budget papers is investigations undertaken by departments, such as reviews and inquiries. The Government has launched a significant number of investigations since its election, and the Committee was interested to understand their cost and impact.

In the budget estimates questionnaire, the Committee asked departments to identify '*each review, inquiry, study, audit and evaluation specifically requested by the new Government after the 2010 election that the Department will be undertaking during 2011-12.*' The information provided by departments can be seen in Table 7.15.

392 Department of Planning and Community Development, response to the 2011-12 budget estimates questionnaire — parts A and B, received 10 May 2011, p.5

393 Department of Human Services, response to the 2011-12 budget estimates questionnaire — part B, received 9 May 2011, p.8

**Table 7.15: Reviews, inquiries, studies, audits and evaluations specifically requested by the new Government after the 2010 election that will be undertaken during 2011-12**

| Review  | Estimated cost  | Expected completion date                       |
|---|---|--|
| <b>Department of Business and Innovation</b>  |   |  |
| Industry Assistance Review  | To be confirmed   | September 2011                                 |
| Review and strengthen the business strategy for the Chinese, Indian, European and Middle Eastern markets  | To be determined  | China and India to be completed by end of 2011 |
| <b>Department of Education and Early Childhood Development</b>  |   |  |
| Review of Vocational Education & Training Fees and Funding  | \$240,000   | October 2011                                   |
| Review of Employer and Industry Engagement in Vocational Education & Training   | \$250,000   | October 2011                                   |
| Conduct a complete audit of the maintenance needs of Victorian government schools   | \$3,000,000   | December 2011                                  |
| Review of devolution of Student Services from regions to schools in line with the Government's election commitment  | \$100,000   | December 2011                                  |
| Review into the growing testing, reporting and assessment requirements being placed on schools with a view to a substantial reduction in the time and disruption that these requirements are demanding                          | \$50,000  | December 2011                                  |
| <b>Department of Health</b>   |   |  |
| Price Review of the Alcohol and Other Drug Treatment Services   | To be confirmed   | 2012   |
| <b>Department of Human Services</b>   |   |  |
| Evaluate the gap between the increased requirements of the <i>Disability Act 2006</i> and funding provided to community sector organisations to ensure they are appropriately resourced to deliver their legal responsibilities | To be determined  | Approximately September 2012                   |
| Audit of:<br>new and existing social housing to assess access for people with a mental illness; and<br>access people with a disability have to new and existing public housing  | \$18,000  | November 2011                                  |
| 2010 election commitment to 'finalise the investigation into the suitability of Melbourne's Youth Justice Precinct, including an analysis of capacity and management in order that appropriate responses can be implemented'    | To be determined.<br>Further advice to government will be provided during 2010-11, outlining options and investment required. | June 2011                                      |
| <b>Department of Justice</b>  |   |  |
| Office of the Emergency Services Commissioner Review of Tostaree Fire   | \$160,000   | 31 July 2011                                   |
| Victorian Flood Warnings and Response Review  | \$600,000   | 1 December 2011                                |

| <b>Review</b>   | <b>Estimated cost</b>                        | <b>Expected completion date</b>  |
|---|--|--|
| Victoria Law Reform Commission: Review of Registration of Sex Offenders. The Honourable John Coldrey QC will act as a consultant to the Commission in this review.                                  | \$400,000                                    | 4 November 2011  |
| Sentencing Advisory Council: Request for Advice – Implementation of statutory minimum jail sentence for Gross Violence offences   | \$120,000                                    | 5 September 2011   |
| Sentencing Advisory Council: Request for Advice – Implementation of baseline sentences  | \$390,000                                    | 29 February 2012   |
| Sentencing Advisory Council: Review of the Adult Parole Board – to review and report on the legislative framework governing the release and management of sentenced prisoners on parole in Victoria | To be confirmed                              | To be confirmed  |
| <b>Department of Planning and Community Development</b>   |  |  |
| Murray River Communities Energy Feasibility Study   | Subject to public tender (up to \$1 million) | October-December 2011  |
| Strengthening of the Victorian Indigenous Affairs Framework   | \$200,000                                    | March 2012   |
| Metropolitan Liveability Audit  | Currently being scoped                       | To be determined   |
| Government Owned Land Audit   | Currently being scoped                       | To be determined   |
| Landscape assessment for windfarm no-go zones   | Currently being scoped                       | To be determined   |
| <b>Department of Premier and Cabinet</b>  |  |  |
| Protecting Victoria's Vulnerable Children: Child Protection Judicial Review   | \$2,400,000                                  | November 2011  |
| <b>Department of Primary Industries</b>   |  |  |
| None  |  |  |
| <b>Department of Sustainability and Environment</b>   |  |  |
| None  |  |  |
| <b>Department of Transport</b>  |  |  |
| Taxi Industry Inquiry   | \$1,200,000                                  | Funding provided for a comprehensive inquiry into the taxi and hire vehicle service industries, and to provide for the establishment of a separate statutory Taxi Services Commission.<br><br>The inquiry is expected to be completed around mid 2012. |
| Doncaster Rail Feasibility  | \$6,500,000                                  | By mid 2013  |
| Rowville Rail Feasibility   | \$2,000,000                                  | By end 2012  |

|   |                     |   |
|---|---------------------|---|
| Avalon Airport:<br>Rail Link Planning                                       | \$3,000,000         | Funding is provided to 2012-13 for initial planning and development work.                                     |
| Logistics Planning  | \$2,700,000         | Funding is provided to 2012-13 to progress development of an airport precinct master plan for Avalon Airport. |
| Melbourne Airport Rail Feasibility  | \$6,500,000         | By end 2012   |
| Rail Revival in Geelong, Ballarat and Bendigo                               | \$2,000,000         | By mid 2012   |
| Planning study for relocation of car import/export trade to Port of Geelong | \$2,000,000         | End 2011  |
| <b>Department of Treasury and Finance</b>                                   |                     |   |
| Independent Review of State Finances  | \$2,800,000         | 29 February 2012  |
| State Based Reform Agenda   | \$895,000           | 29 January 2012   |
| Inquiry into a more competitive Victorian manufacturing industry            | \$165,000           | 30 August 2011  |
| <b>Parliament</b>   |                     |   |
| None  |                     |   |
| <b>Total</b>  | <b>\$37,688,000</b> |   |

Sources: departmental responses to the 2011-12 budget estimates questionnaire — part B, question 6.5

Departments identified a total of 34 pieces of work that are expected to be undertaken in 2011-12 by nine departments. Departments were able to identify costs for 24 projects, and those identified costs totalled \$37.7 million. The Committee considers that investigations such as these can be valuable in policy development but recognises that they represent a significant cost. In the interests of transparency, the outcomes of these investigations, their impact on Government policy decisions and the consequent impact on forward expenditure should be made clear to the Parliament and the community.

**Recommendation 71: The cost, outcomes, impact on Government policy decisions and impact on forward expenditure of reviews, inquiries, studies, audits and evaluations commissioned by the Government be explained in future budget papers or in a separate report referenced in the budget papers.**

## 7.4 Contingencies

Each year within the expenditure estimate in the Budget, the Government includes amounts as contingency provisions which are not allocated to particular departments. These amounts, along with the Advance to the Treasurer, provide the Government with the ability to incur additional expenses which have not been determined at the time of the Budget. These expenses can come from:<sup>394</sup>

394 Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.36

- likely changes (such as increased demand for government services due to population growth, depreciation costs associated with additional asset investment and the need to continue some programs which conclude in 2011-12); and
- possible expenditure risks (such as output costs rising faster than expected, enterprise bargaining agreements exceeding the funding provided for employee expenses, greater than expected population growth and unforeseen natural disasters).

In addition, it is common for budgets to include a contingency for asset investment, representing capital approved for investment but not yet allocated to specific projects.

To allow for these scenarios, funding is put aside for the budget year and each of the outyears. In the 2011-12 Budget, the contingency provisions amount to \$6.0 billion for output expenditure (not including the Advance to the Treasurer) and \$2.7 billion for asset investment.<sup>395</sup> This is discussed further in Section 2.7 of Chapter 2 above.

**Table 7.16: Contingencies not allocated to departments or capital projects provided in budgets, 2007-08 to 2011-12**

|                                     | 2007-08<br>Budget<br>(\$ million) | 2008-09<br>Budget<br>(\$ million) | 2009-10<br>Budget<br>(\$ million) | 2010-11<br>Budget<br>(\$ million) | 2011-12<br>Budget<br>(\$ million) |
|-------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Output contingencies <sup>(a)</sup> | 3,725.0                           | 7,671.7                           | 3,876.7                           | 7,814.0                           | 5,978.2                           |
| Asset contingencies <sup>(b)</sup>  | 1,611.2                           | 3,657.4                           | 1,662.8                           | 1,207.0                           | 2,748.4                           |

Sources:

- (a) 'contingencies not allocated to departments' from Budget Paper No.4, Statement of Finances, 2007-08 to 2010-11; Budget Paper No.5, 2011-12 Statement of Finances, May 2011
- (b) 'capital provision approved but not yet allocated' from Budget Paper No.2, Strategy and Outlook, 2007-08 to 2011-12

Comparing the last five budgets, the Committee notes that the quantum of contingency provision varies significantly from one year to another (see Table 7.16). It can also be seen that the amounts provided are significant. These facts highlight the points made in Chapter 2 and the recommendation in Part One of this report.<sup>396</sup>

- some explanation of the methodology used to quantify the contingency provisions in the budget papers; and
- details in the annual financial reports for the State of how much of those provisions was actually used in the previous financial year and what it was used for.

With respect to the last point, the Committee notes that details are disclosed of how the funding provided in the annual Advance to the Treasurer is spent. These are provided in a schedule to each year's appropriation bill and in a note to the annual financial report for the

395 Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.31;  
Budget Paper No.2, 2011-12 Strategy and Outlook, May 2011, p.31

396 Public Accounts and Estimates Committee, Report on the 2011-12 Budget Estimates – Part One, June 2011, Recommendations 8-9, p. 31

State, which lists, for the preceding financial year, the various purposes for which the money was released and the amount expended for each purpose.<sup>397</sup> The Committee considers that the Government should adopt a similar model to this schedule for reporting the appropriation of output and asset contingency amounts in the annual financial report for the State.

**Recommendation 72: In presenting details of the drawdowns from contingency provisions in future annual financial reports for the State, the Government adopt the format used to account for use of the Advance to the Treasurer in the appropriation bills.**

At the start of the financial year, the budget papers break down expected expenditure both by government purpose and by department, with the latter break-down including the output contingencies as a line item. In the first, second and third quarterly financial reports for general government sector, expenses to date and the revised budget for the year are broken down by department, including the estimated expenditure from the contingencies allowance. In contrast, however, in past annual financial reports for the State, expenses from transactions have been dissected solely by government purpose. As a result, they have not included the actual expense from the ‘contingencies not allocated to departments’ allowance.<sup>398</sup>

The Committee considers that transparency would be improved by the Government also breaking down expenses in future annual financial reports for the State both by department and by purpose in a manner that is similar to the approach adopted in the budget papers.<sup>399</sup> This disclosure would enable the Parliament and the community to readily see how much of the ‘contingencies not allocated to departments’ are actually used in the previous year, as well as actual expenditure of the regulatory bodies and other part-funded agencies.

**Recommendation 73: In future annual financial reports for the State, the notes accompanying the financial statements break down expenditure both by department and by purpose, to complement the equivalent disclosure in the budget papers.**

The Committee notes an improvement to the transparency of the budget papers in 2011-12 with respect to the reconciliation of the forward estimates to previously published estimates.<sup>400</sup> Each year, the budget papers provide a reconciliation of the forward estimates figures in the Budget with the forward estimates figures in the Budget Update for the previous year. The Budget Update similarly reconciles the forward estimates supplied in the Budget Update with the previous budget papers. This provides the reader with the ability to track, at a high level, the causes of changes to the estimations of income and expenditure over the forward estimates period.

397 e.g. *Appropriation (2011/2012) Act 2011*, Schedule 3; Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, pp.177-9

398 e.g. Department of Treasury and Finance, *Financial Report for the State of Victoria 2009-10*, September 2010, p.87

399 i.e. in Note 12 to the comprehensive operating statement – Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, pp.30-1

400 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.48

In previous years, the impact of ‘policy decision variations’ on expenditure was provided ‘*net of funding from contingencies and other efficiencies*’.<sup>401</sup> It was not possible to disaggregate from this figure how much the additional expenditure due to policy decisions was costing. Nor was it possible to understand from this figure how much of the contingency was being released to pay for these policy decisions.

In the 2011-12 Budget, in contrast, the impact of ‘policy decision variations’ is provided at gross levels, with the release of contingency provisions shown separately as part of ‘other administrative variations’.<sup>402</sup> The Committee considers that this is a positive step in terms of increasing transparency, as it enables the Parliament and community to more clearly see the impact of policy changes. The Committee encourages the Government to continue to provide this figure at gross levels in future budget papers and budget updates.

Despite this improvement, however, it is still not possible from the budget papers to determine how much of the ‘contingencies not allocated to departments’ in previous budgets is being released to pay for these ‘policy decision variations’ as the contingency funding is aggregated with other amounts. In the reconciliation of the forward estimates to previously published estimates, the released unallocated output contingency funding is included in ‘other administrative variations’ along with a variety of other changes.<sup>403</sup> Similarly, in the table explaining the net impact of the 2011-12 Budget new output initiatives, the released unallocated output contingency funding is included in ‘funding from demand and other offsets’.<sup>404</sup>

The Committee considers that, in both of these contexts, transparency would be enhanced by the budget papers stating how much of these amounts is funding released from the ‘contingencies not allocated to departments’ allowance. This applies to both the budget papers and the budget updates. Disaggregating this figure would provide the Parliament and community with a better understanding of how much of that fund is being used to provide for new initiatives and how much these are funded from other sources.

**Recommendation 74: Future budget papers and budget updates specify how much of the allowance for ‘contingencies not allocated to departments’ is released to pay for new initiatives and ‘policy decision variations’ when:**

- (a) quantifying the net impact of new output initiatives; and**
- (b) reconciling the forward estimates to previously published estimates.**

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401 e.g. Budget Paper No.2, *2010-11 Strategy and Outlook*, May 2010, p.82

402 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, pp.48, 51-2

403 *ibid.*, p.48

404 *ibid.*, p.30

## CHAPTER 8: COMMONWEALTH-STATE RELATIONS

### **Chapter overview:**

- 8.1** The Victorian budget papers expected \$22.4 billion in Commonwealth grants to be received in 2011-12. This is 2.4 per cent more than the revised estimate for 2010-11, due primarily to increases in funding for a number of National Agreements and National Partnerships, offset by a significant reduction in funding through the *Nation Building – Economic Stimulus Plan*, as the stimulus package winds down.
- 8.2** The Commonwealth Budget's estimate for grants to be received by Victoria is \$1.2 billion less than was anticipated in the Victorian Budget. The Committee considers that the Department of Treasury and Finance should provide details of the impact of that difference.
- 8.3** The State's GST grants are expected to be 2.7 per cent higher in 2011-12 than in 2010-11. However, the value of grants in 2011-12 is expected to be \$811 million less than had been anticipated at the time of the 2010-11 Budget Update, due to the Commonwealth Grants Commission recommending a decrease in Victoria's share of the total GST pool and due to the total pool being less than expected. The State Government has introduced an additional savings program, designed to save \$638 million over four years, to partly offset the reduction in GST grants.
- 8.4** At its meeting on 13 February 2011, the Council of Australian Governments (COAG) adopted a new, streamlined agenda built around five themes of strategic importance. COAG also revised the arrangements for health funding that had been agreed at the previous meeting, providing more control for the states and territories.
- 8.5** A number of departments have been affected by decisions at the Commonwealth level in 2011-12. A particularly significant change has been the deferral of \$500 million for the Regional Rail Link, the impacts of which are still being determined.
- 8.6** Progress has been made in many areas of the COAG Reform Agenda, especially the *National Partnership Agreement to Deliver a Seamless National Economy*. With respect to that agreement, Victoria met all but two of its milestones in 2009-10 and COAG has brought forward the completion date to December 2012.
- 8.7** The Government has commissioned the Victorian Competition and Efficiency Commission to conduct an inquiry to identify elements for a State-based reform agenda that will focus on promoting productivity, labour force participation and competitiveness.
- 8.8** While the Government has indicated that it is working to align departmental reporting to COAG requirements, the Committee considers that the extent of alignment or difference should be more clearly detailed in future budget papers.

## 8.1 Introduction

Decisions at the Commonwealth level each year can have a significant impact on the Victorian Budget. Grants from the Commonwealth account for approximately half of the State's revenue each year (47 per cent in 2011-12<sup>405</sup>), so changes to the value or conditions of grants can have major ramifications for Victoria. Victoria is also impacted by the Council of Australian Governments (COAG) Reform Agenda, which includes a number of reforms across a range of government services.

In 2010-11, there were two major developments at the Commonwealth level affecting Victoria:

- a review by the Commonwealth Grants Commission significantly reduced Victoria's share of the GST pool; and
- a meeting of COAG on 13 February 2011 led to agreement on a number of matters, most significantly a major revision of the previous *National Health and Hospitals Network* agreement.

Given the importance of these matters, the Committee was keen to understand how deliberations at the Commonwealth level have impacted on the framing of the 2011-12 Budget and how Victoria's use of Commonwealth funding is measured and reported.

## 8.2 Commonwealth grants in 2011-12

### 8.2.1 Background

Grants from the Commonwealth to the states and territories are governed by the *Intergovernmental Agreement on Federal Financial Relations*. This agreement is designed to improve 'the quality and effectiveness of government services by reducing Commonwealth prescriptions on service delivery by the States, providing them with increased flexibility in the way they deliver services to the Australian people.'<sup>406</sup> Under this agreement, funding is provided to the states through three different types of grant:

- General Purpose Grants (GST grants);
- National Partnerships; and
- Specific Purpose Payments.

### **General Purpose Grants (GST grants)**

General Purpose Grants (GST grants) come from the GST revenue collected by the Commonwealth Government. They are distributed to the states and territories to be used for any purpose. General Purpose Grants are allocated according to the horizontal fiscal

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405 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, pp.145, 159

406 Council of Australian Governments, 'Intergovernmental Agreement (IGA) on Federal Financial Relations' <[www.coag.gov.au/intergov\\_agreements/federal\\_financial\\_relations/](http://www.coag.gov.au/intergov_agreements/federal_financial_relations/)>, accessed 26 July 2011

equalization principle. The Commonwealth Grants Commission understands this principle as:<sup>407</sup>

*State governments should receive funding from the pool of goods and services tax revenue such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.*

To achieve this, each state and territory receives a share of the total GST pool according to its population, adjusted according to ‘relativities’ determined by the Commonwealth Grants Commission. As a result of these relativities, some states receive significantly more per capita than others. The relativities are recalculated each year and, as discussed further below, they can vary substantially from one year to the next. This variation can significantly alter the value of grants received by a state or territory.

### **National Partnerships**

National Partnerships are allocated on a case-by-case basis ‘to support the delivery of specified outputs or projects, to facilitate reforms or to reward those jurisdictions that deliver on nationally significant reforms’.<sup>408</sup>

### **Specific Purpose Payments**

Specific Purpose Payments are allocated on a per capita basis to fund key service delivery areas.<sup>409</sup> Each Specific Purpose Payment is associated with a National Agreement that contains objectives, outputs, outcomes and performance indicators. The agreement also ‘clarifies roles and responsibilities that will guide the Commonwealth and States in the delivery of services across the relevant sectors.’<sup>410</sup> The five national Specific Purpose Payments relate to:<sup>411</sup>

- healthcare;
- schools;
- skills and workforce development;
- disability; and
- affordable housing.

## **8.2.2 Commonwealth funding in 2011-12**

407 Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities – 2011 Update*, February 2011, p.31

408 Council of Australian Governments, *Intergovernmental Agreement on Federal Financial Relations*, p.6

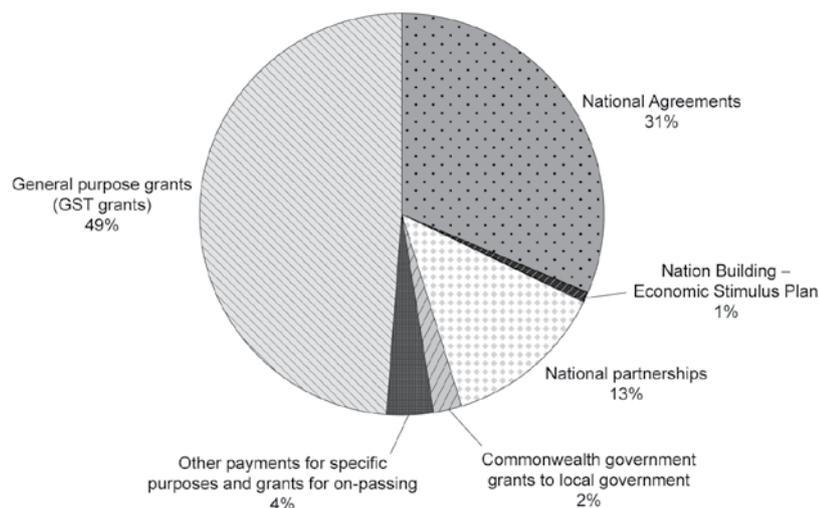
409 *ibid.*, Schedule D, 25 March 2009, pp.D-2-D-4

410 Council of Australian Governments, ‘Intergovernmental Agreement (IGA) on Federal Financial Relations’ <[www.coag.gov.au/intergov\\_agreements/federal\\_financial\\_relations/](http://www.coag.gov.au/intergov_agreements/federal_financial_relations/)>, accessed 26 July 2011

411 Council of Australian Governments, *Intergovernmental Agreement on Federal Financial Relations*, Schedule D, 25 March 2009, p.D-2

Figure 8.1 shows a break-down of the different types of Commonwealth grants expected to be received in 2011-12 according to the 2011-12 budget papers.

**Figure 8.1: Commonwealth funding expected to be received by the Victorian Government in 2011-12**



Source: *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, pp.159, 161-2*

These amounts are quantified and compared to last year in Table 8.1.

**Table 8.1: Break-down of Commonwealth grants, 2010-11 and 2011-12**

| Type of grant  | 2010-11 revised estimates<br>(\$ million) | 2011-12 Budget<br>(\$ million) | Change 2010-11 to 2011-12<br>(per cent) |
|--|---|--------------------------------|---|
| National Agreements  | 6,577.4                                   | 7,023.5                        | 6.8                                     |
| Nation Building – Economic Stimulus Plan                       | 1,517.5                                   | 185.0                          | -87.8                                   |
| National Partnerships  | 1,858.6                                   | 2,953.9                        | 58.9                                    |
| Commonwealth government grants to local government             | 369.3                                     | 477.7                          | 29.4                                    |
| Other payments for specific purposes and grants for on-passing | 893.7                                     | 819.1                          | -8.3                                    |
| General Purpose Grants (GST grants)                            | 10,654.2                                  | 10,944.8                       | 2.7                                     |
| <b>Total</b>   | <b>21,870.9</b>                           | <b>22,404.0</b>                | <b>2.4</b>                              |

Source: *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, pp.159, 161-2*

As indicated in Table 8.1, Commonwealth grants are expected to total \$22.4 billion according to the 2011-12 budget papers, which is 47 per cent of the total estimated revenue of the State.<sup>412</sup> This is an increase of \$533.1 million (or 2.4 per cent) between the revised estimates for 2010-11 and the forecast for 2011-12.

These changes are primarily a result of:<sup>413</sup>

- increases in funding for the National Agreements, most significantly in the two largest agreements:
  - the National Education Agreement, which increased by \$162.5 million (5.8 per cent); and
  - the National Healthcare Agreement, which increased by \$226.3 million (7.7 per cent);
- significant increases in a number of National Partnerships, including:
  - *Nation Building – AusLink (Road and Rail)* funding, which increased by \$413.4 million (144 per cent);
  - the *Regional Rail Link* project, which is expected to receive an additional \$201.0 million (81 per cent); and
  - *Natural Disaster Relief* grants, which have multiplied fivefold, increasing from \$83.6 million to \$515.0 million (516 per cent);
- an increase in GST grants due to a larger GST pool, offset by Victoria’s share being reduced from 23.4 per cent to 22.5 per cent in 2011-12 due to a change to Victoria’s relativity (see below); and
- an expected reduction of \$1,332.5 million (88 per cent) in the *Nation Building – Economic Stimulus Plan* compared to the 2010-11 revised estimates, due to the planned winding down of the Commonwealth’s stimulus package.

Table 8.2 shows Commonwealth funding as a proportion of the revenue of Victoria’s general government sector in recent years. It can be seen that the proportion of Victoria’s revenue coming from the Commonwealth has been declining over the past two years. However, it is important to understand that a key reason for this is that Commonwealth funding was increased significantly in 2009-10 and 2010-11 to mitigate the effects of the global financial crisis. As this funding winds down in 2011-12, the proportion of Victoria’s revenue derived from Commonwealth grants returns to its earlier levels.

**Table 8.2: Proportion of the State Government revenue budget derived from Commonwealth grants, 2007-08 to 2011-12**

|  | 2007-08<br>actual | 2008-09<br>actual | 2009-10<br>actual | 2010-11<br>revised<br>estimate | 2011-12<br>Budget |
|--|-------------------|-------------------|-------------------|--------------------------------|-------------------|
| Commonwealth grants<br>(\$ million)              | 15,982.6          | 18,711.4          | 22,590.6          | 21,870.9                       | 22,404.0          |
| Total revenue from<br>transactions (\$ million)  | 37,340.3          | 39,284.8          | 44,585.3          | 45,438.3                       | 47,439.2          |
| Revenue budget derived<br>from grants (per cent) | 42.8              | 47.6              | 50.7              | 48.1                           | 47.2              |

Sources: *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, pp.145, 159;*  
*Budget Paper No.4, 2010-11 Statement of Finances, May 2010, pp.203, 217;*  
*Department of Treasury and Finance, Financial Report for the State of Victoria 2007-08, October 2008, pp.57, 91*

Further discussion of the impact of changes to Commonwealth funding on the State Budget can be found in Chapter 6.

The Committee notes that the Victorian Budget is released prior to the Commonwealth Budget. The estimates in the Victorian budget papers are therefore based on ‘*the latest information available to the Victorian Government at the time of finalisation of the 2011-12 Budget.*’<sup>414</sup> In fact, Victoria’s estimates for the GST grants proved to be reasonably similar to the Commonwealth’s but Victoria’s predictions in the other areas proved to be significantly higher (see Table 8.3).

**Table 8.3: Estimates of Commonwealth grants for Victoria in 2011-12 in the Victorian budget papers compared to the Commonwealth budget papers**

| Type of grants                         | 2011-12 Victorian budget<br>papers<br>(\$ million) | 2011-12 Commonwealth<br>budget papers<br>(\$ million) |
|--|--|---|
| General Purpose Grants<br>(GST grants) | 10,944.8   | 10,908  |
| Other grants                           | 11,459.2   | 10,256  |
| <b>Total</b>                           | <b>22,404.0</b>                                    | <b>21,163</b>   |

Sources: *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.159*  
*Commonwealth Government, 2011-12 Australian Government Budget - Budget Paper No. 3, May 2011, p.14*

Overall, the Commonwealth Budget estimates \$1.2 billion less than was anticipated by the Victorian Government. The Committee acknowledges that there is much that cannot be predicted by the State Government prior to the release of the Commonwealth Budget. However, the Committee considers that this variation is substantial and that it would therefore be appropriate for the Department of Treasury and Finance to provide details of the impact of this variation in order to more accurately provide a picture of the programs to be delivered by the Government in the budget year.

414 *Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.159*

**Recommendation 75:** Where there is a significant discrepancy between the estimate of Commonwealth grants for Victoria in the Victorian budget papers and the Commonwealth budget papers, the Department of Treasury and Finance publish a document on its website indicating what impact that difference will have on the Budget.

### 8.2.3 GST grants in 2011-12

Regarding the GST grants, the Committee notes that the Victorian Government expects to receive 2.7 per cent more in 2011-12 than in 2010-11 and that this figure is expected to continue to rise through the forward estimates period.<sup>415</sup> However, the Government has noted that this rate of growth is less than the combined growth of population and inflation.<sup>416</sup> The value of GST grants is also significantly less than had been anticipated earlier – the 2011-12 Budget estimate for the GST grants in 2011-12 is \$811 million less than what was expected at the time of the 2010-11 Budget Update. This reduction is made up of \$498 million less due to changes in the relativities and \$313 million less due to the total GST pool being less than forecast.<sup>417</sup> Based on the 2011-12 figures, the Government estimates that Victoria will receive \$4.1 billion less between 2010-11 and 2014-15 than had been expected at the time of the 2010-11 Budget Update.<sup>418</sup>

The Government has described this variation as a shock to the Victorian economy, ‘comparable to the reduction in GST grants observed during the global financial crisis.’<sup>419</sup> In response, the Government has introduced an additional savings program in the 2011-12 Budget, which seeks to save \$637.7 million over four years. These savings are listed in Budget Paper No.3 (2011-12 Service Delivery) as a line item ‘Measures to offset the GST reduction’ in each department’s list of output initiatives. Additional detail has been provided in an *Efficiency Savings Background Brief*.<sup>420</sup> The Government has acknowledged that these savings are substantially less than the reduction to the value of GST grants, but has indicated that this level reflects ‘an appropriate level of savings which can be achieved in the short term without undue impact on front line service delivery.’<sup>421</sup>

The savings program is discussed further in Section 4.5 of Chapter 4 above.

While the Committee acknowledges that the reduction in Victoria’s relativity in 2011-12 compared to the 2010-11 relativity was substantial, the Committee notes that Victoria’s relativity was increased significantly in 2010-11 compared to 2009-10 and that the 2011-12 relativity is more in line with earlier trends (see Table 8.4). However, as Table 8.4 also shows, the change between 2010-11 and 2011-12 is larger than changes in previous years.

415 *ibid.*, pp.26, 159

416 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.27

417 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, pp.159-60

418 *ibid.*, p.160

419 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.23

420 Department of Treasury and Finance, *Victorian Budget 2011-12: Efficiency Savings Background Brief*, n.d.

421 *ibid.*, p.2

**Table 8.4: Victoria's GST relativities, 2006-07 to 2011-12**

|            | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|------------|---------|---------|---------|---------|---------|---------|
| Relativity | 0.89559 | 0.90096 | 0.92540 | 0.91875 | 0.93995 | 0.90476 |

Source: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities – 2011 Update*, February 2011, p.88

The Victorian Government has expressed concerns to the Commonwealth about the method of calculating the distribution of GST revenue and the Commonwealth has announced a review which is expected to produce a final report by September 2012.<sup>422</sup> As a consequence, Victoria may not experience the full \$4.1 billion impact currently estimated for the forward estimates.

### 8.3 COAG deliberations and their impact on the 2011-12 State Budget

The Council of Australian Governments (COAG) is the peak intergovernmental forum in Australia, comprising the Prime Minister, State Premiers, Territory Chief Ministers and the President of the Australian Local Government Association. The role of COAG is *'to initiate, develop and monitor the implementation of policy reforms that are of national significance and which require cooperative action by Australian governments.'*<sup>423</sup> At its meeting on 13 February 2011, COAG adopted a new streamlined agenda:<sup>424</sup>

*... built around five themes of strategic importance that lie at the intersection of jurisdictional responsibilities:*

- *a long term strategy for economic and social participation;*
- *a national economy driven by our competitive advantages;*
- *a more sustainable and liveable Australia;*
- *better health services and a more sustainable health system for all Australians; and*
- *Closing the Gap on Indigenous disadvantage.*

The last two COAG meetings prior to the 2011-12 Budget were on 19-20 April 2010 and 13 February 2011.

#### 19-20 April 2010 meeting

On 19-20 April 2010, COAG (with the exception of Western Australia), among other things, reached an agreement on health and public hospitals reform – the establishment of a *National Health and Hospitals Network*. This new healthcare agreement proposed that:<sup>425</sup>

- the Commonwealth become the major funder of Australian public hospitals;
- the Commonwealth have full funding and policy responsibility regarding general practice, primary health care and aged care services;

422 Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.160

423 Council of Australian Governments, 'About COAG' <[www.coag.gov.au/about\\_coag/](http://www.coag.gov.au/about_coag/)>, accessed 28 July 2011

424 Council of Australian Governments, *Communiqué*, 13 February 2011, p.2

425 Council of Australian Governments, *Communiqué*, 19-20 April 2010, pp.2-6

- responsibility for hospital management be devolved to local networks;
- joint intergovernmental funding authorities (made up of both Commonwealth and state representatives) be established in each state to distribute the funding; and
- in order to support this commitment, the COAG agreed that these reforms would be funded from:
  - the National Healthcare Specific Purpose Payment;
  - a portion of states' and territories' GST grants; and
  - additional top-up funding from the Commonwealth.

### **13 February 2011 meeting**

#### **National Health Reform**

At its meeting on 13 February 2011, COAG significantly revised the arrangements for health funding that had been agreed at the previous meeting. The COAG members signed a new *Heads of Agreement – National Health Reform* and a revised *National Health Reform Agreement – National Partnership Agreement on Improving Public Hospital Services*.

The *Heads of Agreement – National Health Reform* will form the basis of negotiations towards a new *National Health Reform Agreement*, which will replace the *National Health and Hospitals Network Agreement* that was agreed to in April 2010. This new *National Health Reform Agreement* was expected to be signed by 1 July 2011.<sup>426</sup>

In comparison with the 19-20 April 2010 meeting, under the new agreement:<sup>427</sup>

- the states remain the managers of the public hospital system and do not transfer any primary health care responsibilities to the Commonwealth;
- the Commonwealth Government will be responsible for driving reforms including Medicare Locals, GP Super Clinics and investment in training health professionals;
- there will be no requirement for a portion of GST grants to be retained by the Commonwealth Government;
- the Commonwealth contribution for efficient growth funding in public hospitals will increase to 45 per cent by 1 July 2014 and 50 per cent by 1 July 2017; and
- instead of multiple funding authorities at the state and Commonwealth levels, the states and the Commonwealth will contribute into a single national pool to be administered by an independent national funding body from 1 July 2012.

426 Council of Australian Governments, *Heads of Agreement – National Health Reform*, February 2011, p.10

427 Council of Australian Governments, *Heads of Agreement – National Health Reform*, February 2011; Department of Health, 'National Health Reform – Victoria's approach' <[www.health.vic.gov.au/healthreform/](http://www.health.vic.gov.au/healthreform/)>, accessed 28 July 2011

## Other headways and developments

A number of other matters were also agreed to by COAG in February 2011, including:<sup>428</sup>

- a streamlined agenda for COAG (see above);
- the adoption of a *National Strategy for Disaster Resilience*;
- bringing forward the completion date for the reforms in the *National Partnership Agreement to Deliver a Seamless National Economy*;
- steps towards a national ports strategy; and
- reform of the ministerial councils.

Some members of COAG also agreed in principle to the establishment of a national vocational education and training regulator, but Victoria and Western Australia did not agree, as they believed that they should retain regulatory control over some providers.<sup>429</sup>

## 8.4 The impact of changes at the Commonwealth level in 2011-12

In their responses to the Committee's budget estimates questionnaire, departments provided information about the impact of Commonwealth decisions, including the COAG Reform Agenda, on their components of the 2011-12 Budget. Table 8.5 below summarises departments' responses.

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428 Council of Australian Governments, *Communiqué*, 13 February 2011

429 *ibid.*, p.4

**Table 8.5: The impact of deliberations at the Commonwealth level on the State Budget**

| Department                                | Impact of developments at the Commonwealth level   |
|---|--|
| Business and Innovation                   | There are no National Partnerships or National Agreements that impact the budget of the Department of Business and Innovation.   |
| Education and Early Childhood Development | <p>There is no new funding from Commonwealth-State agreements in the 2011-12 Budget.</p> <p>Funding from previous agreements is provided through:</p> <p>National Partnerships (a total of \$232.2 million), including:</p> <ul style="list-style-type: none"> <li>– the <i>National Partnership on Early Childhood Education</i> (\$59.1 million), which has been stepped up to meet the 2013 target for early childhood education;</li> <li>– the <i>National Secondary School Computer Fund</i> (\$49.3 million); and</li> <li>– the <i>National Partnership on Low Socio-Economic Status School Communities</i> (\$68.8 million), which has been significantly increased due to an increase in the funding pool provided by the Commonwealth following reforms;</li> </ul> <ul style="list-style-type: none"> <li>• the <i>National Education Agreement</i> (\$2,962.1 million, an increase of 5.8 per cent in comparison with the 2010-11 revised estimates due to indexation);</li> <li>• the <i>National Skills and Workforce Development Specific Purpose Payment</i> (\$337.1 million); and</li> <li>• the <i>Building the Education Revolution and Teaching and Learning Capital Funds</i>, the budgets of which have considerably decreased (-81 per cent) to \$244.3 million in 2011-12 as the Commonwealth economic stimulus package winds down.</li> </ul> |
| Health                                    | <p>The <i>Heads of Agreement – National Health Reform</i> agreed on 13 February 2011 at the COAG meeting will have a major impact. Commonwealth decisions affecting the Department included:</p> <ul style="list-style-type: none"> <li>• under the revised <i>National Partnership Agreement on Improving Public Hospital Services</i>, \$822.2 million will be granted to Victoria from 2009-10 to 2013-14 – in the 2011-12 State Budget, \$143.3 million is allocated (for operating and capital funding) to Victoria, with an additional \$21.6 million for reward funding to be provided if Victoria meets its targets; and</li> <li>• it was decided to bring forward \$30 million of reward funding to 2011-12 to fund hospitals.</li> </ul> <p>As a result of the April 2010 deliberations, Victoria expects an additional \$26.9 million for long-stay older patients in public hospitals and \$3.6 million multi-purpose service facilities.</p> <p>The Victorian Comprehensive Cancer Centre funding from the Commonwealth has been deferred (see below).</p>   |
| Human Services                            | <p>Activity continues under the <i>National Disability Agreement</i> (\$288.1 million) and the <i>National Affordable Housing Agreement</i> (\$288.2 million).</p> <p>The winding down of Commonwealth funding for <i>Nation Building – Economic Stimulus Plan</i> initiatives resulted in \$139.4 million (69 per cent) less for Social Housing in comparison with the 2010-11 revised estimates. The State budget for this was decreased accordingly.</p>  |
| Justice                                   | <p>The <i>Natural Disaster Resilience Package</i> governed by a National Partnership provides a further \$4.1 million in the Department's 2011-12 budget.</p> <p>Commonwealth Legal Aid funding to Victoria will be \$43.6 million in 2011-12.</p> <p>Native title funding from the Commonwealth was discontinued because of project completion in 2010-11.</p>  |
| Planning and Community Development        | Developments at the Commonwealth level have not impacted the Department's components of the 2011-12 Budget.  |

| Department                     | Impact of developments at the Commonwealth level  |
|--------------------------------|---|
| Premier and Cabinet            | There has been no direct impact on the departmental budget other than recognition of the continued importance of policy advice to the Premier to support Victoria's input into the COAG Reform Agenda. The Department continues to work across the Victorian general government sector to align departmental reporting to the COAG reporting requirements.  |
| Primary Industries             | There are no impacts for the Department as no National Agreements or National Partnerships exist for the Energy and Resources and the Agriculture and Food Security portfolios.   |
| Sustainability and Environment | Funding continues to be provided for existing programs, with changes primarily reflecting different milestones to be achieved in 2011-12.   |
| Transport                      | The COAG Reform Agenda affects the Department of Transport through: <ul style="list-style-type: none"> <li>• plans regarding urban congestion; and</li> <li>• plans to improve the productivity of the freight sector.</li> </ul> In 2011, the Commonwealth Government announced that funding for some Nation Building projects needed to be deferred due to the cost of flood reconstruction. In Victoria, \$500 million has been deferred for the Regional Rail Link project and \$20 million for the Princes Highway East – Traralgon to Sale duplication. |
| Treasury and Finance           | Victoria will be eligible for reward payments of \$49.6 million in 2011-12 under the <i>National Partnership Agreement to Deliver a Seamless National Economy</i> .   |
| Parliament                     | Parliament is not affected, as it is not a service delivery department.   |

Sources: departmental responses to the Committee's 2011-12 budget estimates questionnaire – questions 10.1-10.2, and Department of Treasury and Finance, responses to the Committee's 2011-12 budget estimates questionnaire – part B, received 4 May 2011, p.18 (except as noted)

A particular issue this year with respect to Commonwealth grants is that the Commonwealth has deferred funding for the Regional Rail Link and the Victorian Comprehensive Cancer Centre. With regard to the Cancer Centre, the Department of Treasury and Finance advised that:<sup>430</sup>

*After offsetting revenues, the net project cost of \$854.6 million is to be shared roughly equally between Victoria and the Commonwealth. In late December 2010, the Commonwealth advised it would re-phase its contribution towards the VCCC by shifting approximately \$184 million in funding to the years 2013-14 to 2015-16.*

Regarding the Regional Rail Link:<sup>431</sup>

*To date the commonwealth project funding has been re-phased three times, most recently in early 2011, with revenue in 2010-11 now \$101 million lower than that recognised at Budget Update time. Commonwealth revenue for the RRL project over the next four years (2011-12 to 2014-15), as advised by the Commonwealth government, will be \$400 million lower than that included in the 2010-11 Budget Update estimates.*

430 Department of Treasury and Finance, response to the Committee's 2011-12 budget estimates questionnaire – part B, received 4 May 2011, p.18

431 *ibid.*

The Department of Transport advised that ‘*Victoria has yet to fully determine the impacts of the proposed changes to cash flows*’ and that:<sup>432</sup>

*Victoria is in further discussions with the Commonwealth on the reprofiling, particularly how delaying the projects brings about additional costs, including escalation, general inflation, and the costs associated with keeping public and private sector project teams mobilised for longer.*

Given the cost and importance of the Regional Rail Link, the Committee considers it important that the Department of Transport detail the impacts of the deferred funding and quantify the consequent additional costs and how they will be met as soon as they are known. The Committee has discussed more generally the importance of detailing cost over-runs and the Government’s response to them in Section 5.4 of Chapter 5 above.

**Recommendation 76: The Department of Transport publish details, as soon as they are known, of the impacts of the deferrals of Commonwealth funding for the Regional Rail Link, including quantifying the additional costs that will be incurred as a result and how those costs will be met.**

## 8.5 Progress on the COAG Reform Agenda

The COAG Reform Council is the key accountability body for the COAG Reform Agenda. It has been established by COAG as part of the arrangements for Commonwealth-state financial relations to drive its reform agenda ‘*by strengthening public accountability of the performance of governments through independent and evidence-based monitoring, assessment and reporting.*’<sup>433</sup> The COAG Reform Council releases reports regarding the achievement of the outcomes and performance benchmarks specified in National Agreements and National Partnerships.

In its *COAG Reform Agenda: Report on Progress 2010*, the COAG Reform Council found that there has been progress in a number of areas with respect to the COAG Reform Agenda.<sup>434</sup>

Of particular interest to the Committee is Victoria’s progress with respect to the *National Partnership Agreement to Deliver a Seamless National Economy*, which seeks to enhance productivity in Australia. In December 2010, the COAG Reform Council released a report on the states’ and territories’ progress with respect to the milestones for this agreement for 2010-11. Table 8.6 summarises Victoria’s performance in the 34 areas for which the State had milestones.

432 Department of Transport, response to the Committee’s 2011-12 budget estimates questionnaire – part B, received 9 May 2011, p.14

433 COAG Reform Council, ‘About us’, <[www.coagreformcouncil.gov.au/about.cfm](http://www.coagreformcouncil.gov.au/about.cfm)>, accessed 29 July 2011

434 COAG Reform Council, *COAG Reform Agenda: Report on Progress 2010*, July 2010

**Table 8.6: Victoria's progress against its 2009-10 milestones in the National Partnership Agreement to Deliver a Seamless National Economy**

| Area                         | Milestones fully or largely completed on time<br><br>(number of areas) | Milestones completed late or only partially<br><br>(number of areas) | Milestones not completed or future objectives at significant risk of not being met<br><br>(number of areas) | Total number of areas with milestones for Victoria in 2009-10<br><br>(number of areas) |
|------------------------------|--|--|---|--|
| Deregulation priorities      | 19   | 5  | 2   | 26   |
| Competition reforms          | 3  | 2  | 0   | 5  |
| Additional regulatory reform | 3  | 0  | 0   | 3  |

Source: COAG Reform Council, *National Partnership Agreement to Deliver a Seamless National Economy: Report on Performance 2009-10, December 2010*

The two areas (food and director's liability) where Victoria has not met its milestones are both areas where all jurisdictions failed to meet their 2009-10 milestones. The first was a result of COAG not having considered an intergovernmental agreement on food regulation reform,<sup>435</sup> and the second was primarily a product of the Ministerial Council for Corporations not having considered the outcomes of audits which had been completed and not having identified nationally agreed principles.<sup>436</sup>

The Committee notes that, overall, COAG considers that good progress is being made with respect to the reforms and has brought forward the completion date from June 2013 to December 2012.<sup>437</sup>

### 8.5.1 State-based reform agenda

In the area of reform, the Committee also notes that the Victorian Government has commissioned the Victorian Competition and Efficiency Commission to conduct an inquiry to identify:<sup>438</sup>

*... the main elements of a state-based reform agenda that will focus on promoting productivity, competitiveness and labour force participation. The analysis will be informed by a benchmarking exercise ... (in areas including state taxes and regulation, infrastructure services and the education and skills base of the population) and help identify priority areas for reform.*

The final report for this inquiry is expected by January 2012.<sup>439</sup> The Committee will be interested to see this report and how the areas identified for reform compare to the areas

435 COAG Reform Council, *National Partnership Agreement to Deliver a Seamless National Economy: Performance report for 2009-10*, p.162

436 *ibid.*, p.212

437 Council of Australian Governments, *Communiqué*, 13 February 2011, p.3

438 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.16

439 Hon. K. Wells MP, Treasurer, 'Terms of Reference: Inquiry into a State-Based Reform Agenda'

identified through the COAG Reform Agenda. The Committee considers that, in developing a State-based reform agenda for Victoria, clearly setting out any correlations between State objectives or targets and the existing COAG objectives and targets will be important for providing the Parliament and the public with an understanding of the Government's intentions.

**Recommendation 77:** Any policy developed as part of the State-based reform agenda clearly indicate any correlation between the State objectives and targets and the targets and objectives established as part of the COAG Reform Agenda.

## 8.6 Progress on implementing the framework for Federal financial relations

The objectives of the *Intergovernmental Agreement on Federal Financial Relations* include 'enhanced public accountability through simpler, standardised and more transparent performance reporting by all jurisdictions, with a focus on the achievement of outcomes, efficient service delivery and timely public reporting.'<sup>440</sup> The Committee in the previous Parliament was interested in understanding departments' progress in transitioning to the new accountability framework and the extent to which the Commonwealth framework is integrated into departments' other reporting mechanisms. The current Committee also considers that this is an important aspect of accountability and has continued to ask departments about their progress in this regard in the budget estimates questionnaire.

In addition to departments' own efforts, the Department of Treasury and Finance has been working in conjunction with the Department of Premier and Cabinet to explore how to align the COAG Reform Council reporting framework with Victoria's internal reporting regimes and requirements through a number of forums (such as the Performance Reporting Improvement Working Group).<sup>441</sup>

The Department of Premier and Cabinet specified that it:<sup>442</sup>

*... continues to provide whole of Victorian Government advice to ensure that COAG reporting requirements align as closely as possible with internal reporting requirements.*

The Department of Treasury and Finance added that:<sup>443</sup>

*The 2010 Heads of Treasuries Review of COAG Agreements identified challenges with the implementation of the COAG performance reporting framework and made a number of recommendations to address these. DTF will be playing a lead role in the implementation of the review's recommendations in 2011.*

440 Council of Australian Governments, *Intergovernmental Agreement on Federal Financial Relations*, p.4

441 Department of Treasury and Finance, response to the Committee's 2011-12 budget estimates questionnaire – part B, received 4 May 2011, p.16

442 Department of Premier and Cabinet, response to the Committee's 2011-12 budget estimates questionnaire – part B, received 9 May 2011, p.18

443 Department of Treasury and Finance, response to the Committee's 2011-12 budget estimates questionnaire – part B, received 4 May 2011, p.17

The role taken by these agencies is crucial to make the COAG Reform Agenda effective at the State level, and the Committee will continue to examine the State's progress in transitioning to the new reporting framework. However, the Committee notes that it can be quite difficult to understand from existing reporting mechanisms the extent of the policy alignment between departments, the Victorian Government and the COAG Reform Agenda. In its *Report on the 2010-11 Budget Estimates*, the Committee recommended that the Department of Treasury and Finance consider ways to improve information accessibility in this area.<sup>444</sup>

In its response, the current Government indicated that it supported this recommendation and that, in terms of implementing it:<sup>445</sup>

Action taken to date

*To date, Budget Paper 2 has outlined Victoria's agenda and its linkages to the COAG Reform Agenda. Furthermore, Departmental reporting in Budget Paper 3, where appropriate, identifies linkages with the COAG Agenda.*

Further action planned

*DTF will improve information transparency and will work across agencies to identify opportunities to align national and Victorian indicators, improve information accessibility including as part of the Budget Papers, and make clearer the alignment with Victorian and COAG reform agendas.*

However, while the 2011-12 Budget Paper No.2 (*2011-12 Strategy and Outlook*), provides some detail of the intended State-based reform agenda, it makes no explicit mention of the COAG Reform Agenda. There is also little in Budget Paper No.3 (*2011-12 Service Delivery*) identifying linkages with the COAG Reform Agenda. Certainly the performance measures in Budget Paper No.3 do not indicate which of these measures are used in reporting to the Commonwealth, nor does it indicate where Victoria's targets differ from those set out in agreements as part of the COAG Reform Agenda. The Committee therefore considers that there remains significant room for improvement in the budget papers with respect to indicating the linkages between Victorian State policies and performance measures and the COAG Reform Agenda.

**Recommendation 78: The Department of Treasury and Finance detail more precisely in future budget papers the extent of policy alignment between the State Government and the COAG Reform Agenda, including the extent to which performance measures and targets align or differ.**

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444 Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates – Part Three*, September 2010, p.75

445 Victorian Government, 'Government Responses to the Recommendations of the Public Accounts and Estimates Committee's 96th Report on the 2010-11 Budget Estimates – Part Three', tabled 16 March 2011, p.5

Two other recommendations from the Committee's *Report on the 2010-11 Budget Estimates* relating to the disclosure of milestones under the COAG Reform Agenda were categorised by the Government as 'under review' at the time of its response to the report.<sup>446</sup> The Committee notes that no action relating to these recommendations was taken in the 2011-12 budget papers and looks forward to the 2012-13 budget papers to see whether any further action occurs then.

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446 *ibid.*, pp.5-6



## CHAPTER 9: RESPONDING TO THE ENVIRONMENT

### Chapter overview:

- 9.1** The 2011-12 Budget provides a range of environmental initiatives and sustainability measures. The Government has focused spending on responding to natural disasters (such as bushfires and floods), environmental sustainability, urban water management, public land (such as national parks) and communities' involvement in their local environment.
- 9.2** Environmental initiatives in the 2011-12 Budget largely target groups, businesses and households, such as lower income households, small businesses and regional Landcare groups.
- 9.3** Extreme weather events, such as bushfires, floods and hailstorms, were identified as the most prevalent environmental challenge predicted to impact departmental service delivery in 2011-12 and beyond.
- 9.4** Reducing energy use is the other major environmental challenge reported by departments in response to the Committee's questionnaire.
- 9.5** The 2011-12 Budget provides funding of \$150.4 million for bushfire response initiatives and \$426.5 million for flood response initiatives. In both cases, this is made up of a variety of initiatives across multiple departments.
- 9.6** The Committee believes that there is scope for increased reporting on these initiatives and their impacts. A single implementation, reporting and evaluation framework for emergency management and response could facilitate reporting on these and future emergencies.
- 9.7** The new Government has made urban water management a priority, with a focus on water use and harvesting in Melbourne and regional cities, particularly the use of rainwater, stormwater and recycled water. This is reflected in the 2011-12 Budget, which allocates over \$90 million of new funding to improve urban water use efficiency and recycling.

### 9.1 Introduction

The sustainable management of land, water and other natural resources is becoming increasingly important to ensure environmental health, resilience and productivity in

Victoria.<sup>447</sup> The Committee notes that intensifying pressures being placed on the natural environment include a changing climate, population growth, land use and demographic changes.<sup>448</sup>

The 2011-12 Budget provides funding for a range of environmental initiatives and sustainability measures. Spending has been focused on responding to natural disasters (such as bushfires and floods), urban water management, environmental sustainability, public land (such as national parks) and communities' involvement in their local environment. Major initiatives largely target groups, businesses and households, and include:<sup>449</sup>

- \$65.8 million in 2011-12 for emergency services infrastructure and new fire-fighting vehicles;
- \$62.4 million for the restoration of flood-damaged parks and reserves, and \$30.5 million over four years to secure 65 park ranger positions in regional Victoria;
- \$50.0 million over four years to improve urban water reuse;
- \$40.0 million over four years to encourage households and small businesses to use water-efficient products;
- \$20 million to assist councils to replace older energy-intensive street lights;
- \$20.0 million over four years in environment management grants for community groups; and
- \$12.0 million over four years for additional Landcare coordinators.

In terms of environmental sustainability, the Committee notes that the incoming Government has reaffirmed the State target of a 20 per cent reduction in emissions by 2020 from the 2000 levels.<sup>450</sup> The Committee notes that the Government has also foreshadowed investment 'in innovative recycling and resource recovery projects.'<sup>451</sup> The Government has further stated that, with respect to the environment:<sup>452</sup>

*... we will form strong partnership with local communities, ensure the protection of our biodiversity and eco-systems, improve the sustainability of our natural resources, and plan ahead for our rivers, wetlands and marine environment.*

447 Department of Sustainability and Environment (November 2009), *Securing Our Natural Future. A white paper for land and biodiversity at a time of climate change*, p.ii

448 *ibid.*, pp.4-5

449 Hon. P. Ryan MLA, Minister for Police and Emergency Services, 'Coalition Government provides \$65.8 million to fast-track CFA station and equipment upgrades,' media release, 4 May 2011;  
Hon. R. Smith MP, Minister for Environment and Climate Change, 'Budget delivers effective investment for Victoria's environment and climate action,' media release, 3 May 2011;  
Hon. P. Walsh MLA, Minister for Water, 'Coalition Government delivers \$91 million for positive water reform,' media release, 3 May 2011

450 Hon. R. Smith MP, Minister for Environment and Climate Change, 2011-12 budget estimates hearing, transcript of evidence, 20 May 2011, p.8

451 Premier of Victoria, 'Water and the Environment'  
<[www.premier.vic.gov.au/our-commitment/water-and-the-environment.html](http://www.premier.vic.gov.au/our-commitment/water-and-the-environment.html)> accessed 10 July 2011

452 *ibid.*

## 9.2 Environmental issues impacting on departments

The Committee's budget estimates questionnaire requested that all departments identify key environmental issues that were predicted to impact upon services in 2011-12 and beyond. Departments were also asked to detail how these issues had been addressed in the 2011-12 Budget and over the forward estimates to 2014-15.

### 9.2.1 Extreme weather events

Extreme weather events were identified as the most prevalent environmental challenge predicted to impact departmental service delivery over the forward estimates period. Four departments foreshadowed it as a key environmental challenge: the Department of Justice, Department of Planning and Community Development, Department of Primary Industries and Department of Sustainability and Environment. These departments indicated that an increasingly significant portion of departmental resources, over the estimates period and beyond, will need to be allocated to emergency response and recovery activities, minimising damage and assisting affected communities to rebuild.

The Department of Justice responded in detail about the ongoing challenging operational environment it faces, citing instances such as the bushfire emergency of February 2009, the hailstorm of March 2010 and the floods of January 2011 – all of which impacted on its ability to meet service and output commitments.<sup>453</sup> Its response went further, stating that such events could then give rise to:<sup>454</sup>

- social instability, such as relocating entire communities after the bushfires of 2009 and the floods of 2011;
- budgetary pressures as infrastructure is adapted to better cope with extreme weather events and insurance premiums are increased; and
- a need for business continuity management plans for each of the department's 132 locations to ensure continued delivery of service.

The Committee notes that the 2011-12 Budget provides funding for new initiatives to respond to increasingly extreme weather events, with a particular emphasis on emergency services. This includes funding for:<sup>455</sup>

- State Emergency Services command, control and operational capability – funding of \$13.0 million over four years in output and \$6.0 million in assets for additional staff in leadership roles, new vehicles and new emergency response assets;

453 Department of Justice, response to the Committee's 2011-12 budget estimates questionnaire – part B, received 9 May 2011, p.25

454 *ibid.*

455 *ibid.*, p.27

- emergency services – funding in 2011-12 of \$62.7 million in assets to upgrade 60 Country Fire Authority/State Emergency Services stations and purchase 101 fire-fighting vehicles; and
- State Emergency Services volunteers – output funding of \$9.3 million over four years to implement a new training model to prepare volunteers to respond effectively to extreme weather events.

### 9.2.2 *Environmental sustainability*

Reducing electricity use for operational activities, given rising energy costs, is another major environmental challenge identified in responses to the budget estimates questionnaire – particularly for the Department of Education and Early Childhood Development, Department of Health, Department of Human Services and Department of Justice, which are larger service providers. Energy efficiency was also reported as a priority challenge for the Department of Treasury and Finance, which manages a whole-of-government portfolio of office accommodation, including owned and leased facilities occupied by various government departments and agencies.

The sustainable management of other services was also identified as a challenge by departments, namely:

- water — departments identified a need for better reporting on, and more efficient, water consumption;<sup>456</sup>
- waste — departments indicated that they need to improve their waste management systems and recycling outcomes;<sup>457</sup> and
- transportation — departments are seeking to reduce staff travel and emissions from vehicle fleets.<sup>458</sup>

In departmental responses to the Committee’s questionnaire, there were two initiatives identified in the 2011-12 Budget that directly assisted departments with rising utility costs. The Department of Education and Early Childhood Development received funding of \$7.5 million in 2011-12 through the *Greener Government Schools* pilot project to improve energy and water efficiency in existing buildings and infrastructure.<sup>459</sup> The Department of Planning and Community Development also identified the *Green Light Plan to Save Money and Cut Emissions* initiative funding of \$5.0 million in 2011-12 (\$20.0 million over four years). This program will support councils to convert existing streetlamps to energy efficient lighting, reducing greenhouse emissions and costs for councils and local ratepayers.<sup>460</sup>

456 Department of Health and Department of Human Services

457 Department of Health and Department of Human Services

458 Department of Health, Department of Human Services, Department of Justice and Department of Treasury and Finance

459 Department of Education and Early Childhood Development, response to the Committee’s 2011-12 budget estimates questionnaire – part B, received 10 May 2011, p.26

460 Department of Planning and Community Development, response to the Committee’s 2011-12 budget estimates questionnaire – part B, received 10 May 2011, p.12

In addition to these initiatives, the Department of Health is funding internally:<sup>461</sup>

- electrical co-generation<sup>462</sup> within the Alfred Hospital, Dandenong Hospital, Geelong Hospital, Royal Melbourne Hospital and St Vincent's Hospital;
- a feasibility study into the expansion of co-generation to other public hospitals; and
- a pilot energy performance contract<sup>463</sup> at the Heidelberg Repatriation and Royal Talbot hospitals in line with the *Greener Government Buildings* program.

The Department of Health has also incorporated a 2.5 per cent allowance for sustainability within all departmental budget bids for asset investment projects.

During the budget estimates hearings, it was revealed that previous initiatives such as the purchase of green power by government departments have not been funded at this stage, though the Minister for Environment and Climate Change did state that '*it is something that we will take into consideration in the future.*'<sup>464</sup>

The Committee notes that, under the Financial Reporting Directions issued by the Department of Treasury and Finance, departments are required to report in their annual reports on office-based environmental data.<sup>465</sup> This includes data on energy use, waste production, paper use, water consumption, transportation fuel consumption and greenhouse gas emissions.<sup>466</sup> The Committee looks forward to examining the effectiveness of these programs at reducing departments' environmental impacts in the Committee's future reports on financial and performance outcomes.

### 9.3 Responding to climate variability

Climate variability, and resulting events such as droughts, storms and floods, can have a significant impact on the Victorian economy and the State Budget. Budget responses to natural disasters, namely bushfires and floods, have been substantial in recent years.

The two Victorian departments responsible for natural resource management, the Department of Sustainability and Environment and the Department of Primary Industries, lead the State response to climate change. Adapting to the impacts of climate change is one of the four objectives of the Department of Sustainability and Environment, which is the principal administrative body for policy and programs related to the natural environment and climate

461 Department of Health, responses to the Committee's 2011-12 budget estimates questionnaire – part B, received 18 May 2011, p.36

462 Conventional systems usually consist of two plants: one for back-up electricity generation and one for producing steam and hot water. Cogeneration provides the ability to simultaneously produce two forms of energy (electricity and steam) from a single fuel source.

463 With this sort of agreement, an energy services company guarantees the energy savings it will provide. They are paid from these savings for the term of the contract; if the savings are not realised, this company is not paid. The advantage for the hospital, or other building, is that once the contract has expired, the full savings revert to the building owner.

464 Hon. R. Smith MP, Minister for Environment and Climate Change, 2011-12 budget estimates hearing, transcript of evidence, 20 May 2011, p.8

465 Department of Treasury and Finance, 'Financial Reporting Directions 24C – Reporting of Office-Based Environmental Data by Government Entities,' February 2008

466 *ibid.*

variability.<sup>467</sup> The departmental output *Environmental Policy and Climate Change* focuses on policy development and implementation to help communities and businesses better use resources and adapt to the impact of climate change.<sup>468</sup>

The *Environmental Policy and Climate Change* output received a funding increase of \$9.6 million in 2011-12 compared to the 2010-11 revised estimates. This includes election commitments, such as \$2.2 million in 2011-12 (\$5.0 million over two years) for the *Business Sustainability Accreditation Program* and \$2.5 million in 2011-12 (\$5.0 million over two years) for the *Energy Efficiency Rebates for Low Income Households* initiative.<sup>469</sup> The energy efficiency rebates initiative will subsidise energy efficient white goods for low income households.<sup>470</sup> The accreditation program aims to recognise small and medium-size sustainable businesses. The Committee notes that the Department of Treasury and Finance also has an accreditation program encouraging businesses to improve energy efficiency use.<sup>471</sup> The *Saver Incentive (Victorian Energy Efficiency Target) Scheme* provides \$3.0 million in 2011-12 (\$12.0 million over four years) to accredit businesses and ensure compliance with the *Victorian Energy Efficiency Target Act 2007*.<sup>472</sup>

The Department of Sustainability and Environment does not currently have an estimate for the anticipated greenhouse gas savings that will result from initiatives in the climate change output, but has commissioned an independent study that will model the expected benefits.<sup>473</sup> The Committee looks forward to seeing this study, so that the outcomes achieved by the programs can be assessed.

Overall, the Government has committed to a 20 per cent reduction in greenhouse gas emissions compared to 2000 levels by 2020, and to deriving up to 25 per cent of its electricity from renewable sources by 2020.<sup>474</sup> A significant source of current emissions in Victoria comes from electricity generation. As the Department of Primary Industries has indicated:<sup>475</sup>

*... [Victoria] accounts for 22 per cent of Australia's greenhouse gas emissions, and approximately 52 per cent of these arise from the use of brown coal for electricity generation in the State.*

As the Department of Primary Industries has stated, the environmental impact of this needs to weighed up against *'the economic advantages [Victoria] derives from utilisation of its very low-cost brown coal resources.'*<sup>476</sup> Nonetheless, funding is provided in the 2011-12 Budget for alternative energy technologies.

467 Department of Sustainability and Environment 'About DSE' <[www.dse.vic.gov.au/about-dse](http://www.dse.vic.gov.au/about-dse)> (accessed 10 July, 2011)

468 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.321

469 *ibid.*, p.76

470 *ibid.*, p.78

471 *ibid.*, p.145

472 *ibid.*, pp.145-6

473 Hon. R. Smith MP, Minister for Environment and Climate Change, 2011-12 budget estimates hearing, transcript of evidence, 20 May 2011, response to questions on notice, correspondence received 22 June 2011

474 Department of Primary Industries 'Energy Technology Innovation Strategy (ETIS)' <[new.dpi.vic.gov.au/energy/projects-research-development/etis](http://new.dpi.vic.gov.au/energy/projects-research-development/etis)>, accessed 23 July 2011

475 *ibid.*

476 *ibid.*

The major climate change initiative in the 2011-12 Budget, the *Low Emission Energy Technology Program*, falls within the remit of the Department of Primary Industries. This program is part of the *Energy Technology Innovation Strategy (ETIS)*, which is targeting the key strategic priority of the Department of Primary Industries of enabling ‘*transformation of the energy sector under carbon constraints*.’<sup>477</sup> The *Low Emission Energy Technology Program* has been provided funding of \$41.0 million in total over the three years to 2014-15, with funding of \$12.5 million to begin in 2012-13 for the demonstration of sustainable energy technologies, such as solar, biomass, geothermal, wave, smart grid, energy efficiency, fuel cells, small scale hydro, co-generation and tri-generation.<sup>478</sup>

In addition to this, the 2011-12 Budget provides \$100,000 funding for a study into the feasibility of generating green power from Ballarat’s green waste.<sup>479</sup>

The Committee acknowledges ‘*that climate change is an evolving policy area for all levels of government*’<sup>480</sup> and needs careful consideration. It also recognises that there is much uncertainty at the national level as to what legislation, policy and actions will prevail in response to the changing climate. The Government has indicated that it is:<sup>481</sup>

*... currently considering how it will progress its climate change policy. Future budget papers will include clear reporting on the implementation and progress of the Government’s own climate change policy once this has been developed.*

The Committee looks forward to seeing this detail in the future.

## 9.4 Responding to natural disasters

The 2011-12 Budget includes funding for both bushfire and flood responses.

### 9.4.1 Bushfire response

A 2006 report, prepared by Commonwealth Scientific and Industrial Research Organisation (CSIRO) Marine and Atmospheric Research Division, the Bushfire Cooperative Research Centre and the Australian Bureau of Meteorology, identified south-eastern Australia as one of the three most fire-prone areas in the world.<sup>482</sup> Victoria has a long history of bushfires of ferocious intensity. Almost once a generation, such fires have claimed lives and had a destructive impact on communities.<sup>483</sup> The 2009 bushfires were one of Australia’s worst natural disasters,<sup>484</sup> and the Victorian Bushfires Royal Commission was established on 16 February 2009 to investigate the causes and responses to this catastrophic event. The Royal

477 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.294

478 Department of Primary Industries, ‘Energy Technology Innovation Strategy (ETIS)’ <new.dpi.vic.gov.au/energy/projects-research-development/etis>, accessed 23 July 2011

479 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.76, 78

480 *ibid.*, p.321

481 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee’s 96th Report on the 2010-11 Budget Estimates – Part Three, March 2011, p.15

482 Bushfire Cooperative Research Centre, *Climate Change and its Impact on the Management of Bushfire*, September 2006, p.4

483 2009 Victorian Bushfires Royal Commission, *Final Report*, July 2010, Summary, p.3

484 *ibid.*, Vol. 1, Appendix C, pp.350-3

Commission's final report was handed down in July 2010. The Committee notes that the current Government supports all of the Royal Commission's recommendations and has clearly stated that it is committed to implementing each of them.<sup>485</sup>

The *Effective Management of Fire* output group is within the Department of Sustainability and Environment's remit. This ongoing output contributes to the departmental objective of reducing the threat of fire. One way it expects to do this is through the implementation of the recommendations of the Victorian Bushfires Royal Commission.<sup>486</sup> This output group was previously part of a large output group – encompassing a diverse range of activities targeting marine, coastal, terrestrial and biodiversity natural values – but in the 2011-12 Budget the large output group was separated into three easily understood output groups.<sup>487</sup> As a result, the Committee notes that effective fire management, an increasingly key output, is now distinguished from all other outputs of the department. The Committee commends the Department of Sustainability and Environment for this.

The Committee notes that the funding for this output in the 2011-12 Budget is only marginally higher than the revised estimate for 2010-11, but is 50.1 per cent higher than the 2010-11 budget estimate. The overwhelming majority of this increase has been explained by additional funding being allocated to bushfire prevention, preparedness, response and recovery activities.<sup>488</sup>

Within the 2011-12 Budget, there has also been new initiative funding allocated to the management of bushfires in Victoria. This funding is spread across five departments — the Department of Justice, Department of Planning and Community Development, Department of Premier and Cabinet, Department of Primary Industries and Department of Sustainability and Environment. Just over \$150 million in the next four years is committed to specific initiatives in response to bushfire — \$87.7 million in specific output initiatives and \$62.7 million in asset initiatives (see Tables 9.1 and 9.2).

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485 Department of Justice, *Implementing the Government's Response to the 2009 Victorian Bushfires Royal Commission*, May 2011, p.4

486 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.318, 320

487 *ibid.*, p.306

488 *ibid.*

**Table 9.1: Bushfire response new output initiatives released in the 2011-12 Budget**

| Department and output  | 2010-11      | 2011-12     | 2012-13     | 2013-14     | 2014-15     | 5 year total |
|--|--------------|-------------|-------------|-------------|-------------|--------------|
|  | (\$ million) |             |             |             |             |              |
| <b>Department of Justice — Emergency services and volunteer organisations</b>            |              |             |             |             |             |              |
| Bushfire Response – emergency services   | -            | 3.1         | -           | -           | -           | 3.1          |
| Bushfire Response – Retreat and Resettlement Strategy                                    | -            | 5.0         | -           | -           | -           | 5.0          |
| <b>Department of Planning and Community Development — Planning and urban development</b> |              |             |             |             |             |              |
| Bushfire Response Planning Unit  | -            | 1.4         | -           | -           | -           | 1.4          |
| <b>Department of Primary Industries — Meeting future energy needs</b>                    |              |             |             |             |             |              |
| Safer electricity assets fund  | -            | 12.5        | 12.5        | 12.5        | 12.5        | 50.0         |
| <b>Department of Premier and Cabinet — Supporting local communities</b>                  |              |             |             |             |             |              |
| Mobile rebuilding advisory service   | -            | 0.7         | -           | -           | -           | 0.7          |
| Murrindindi Shire Council industry development package                                   | -            | 1.2         | -           | -           | -           | 1.2          |
| Murrindindi Shire Council operating costs for assets                                     | -            | 0.4         | 0.6         | -           | -           | 1.0          |
| Remediation of the Marysville temporary village site                                     | -            | 1.1         | -           | -           | -           | 1.1          |
| <b>Department of Sustainability and Environment — various</b>                            |              |             |             |             |             |              |
| Insurance premiums increases <sup>(a)</sup>  | -            | 7.7         | 5.1         | 5.5         | 5.9         | 24.2         |
| <b>Total output initiative funding—bushfire response</b>                                 | <b>-</b>     | <b>33.1</b> | <b>18.2</b> | <b>18.0</b> | <b>18.4</b> | <b>87.7</b>  |

Note: (a) increase in insurance due to both fire and flood events

Source: Budget Paper No.3, 2011-12 Service Delivery, May 2011, Chapters 1 and 2

**Table 9.2: Bushfire response new asset initiatives released in the 2011-12 Budget**

| Department and asset initiative   | 2010-11      | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 5 year total |
|---|--------------|---------|---------|---------|---------|--------------|
|   | (\$ million) |         |         |         |         |              |
| <b>Department of Justice — Emergency services and volunteer organisations</b> |              |         |         |         |         |              |
| Bushfire response – emergency services  | -            | 62.7    | -       | -       | -       | 62.7         |

Source: Budget Paper No.3, 2011-12 Service Delivery, May 2011, p.59

The two largest initiatives, the emergency services asset initiative and the safer electricity asset fund, are examined briefly below.

## ***Bushfire response – emergency services***

The 2011-12 Budget provides funding for one year to upgrade 60 State Emergency Services stations and purchase a total of 101 fire-fighting vehicles. This is part of the Government's broader commitment to upgrade more than 250 stations and purchase additional fire-fighting equipment.<sup>489</sup> This initiative contributes to the Department of Justice's *Emergency Management Capability* output.<sup>490</sup> Overall, the Committee notes that the expected cost for this output has increased from \$232.6 million in the 2010-11 Budget to \$273.9 million in the 2011-12 Budget.<sup>491</sup> Despite the additional funding and equipment, the non-cost performance targets in this output remain exactly the same as in previous years and are not markedly higher than actual results over the last few years (in some cases, in fact, the targets are lower).<sup>492</sup> This suggests to the Committee that either the targets need to be reconsidered in the light of the extra capacity or new targets need to be introduced which reflect the impact of the additional services.

**Recommendation 79:** The Department of Justice reassess the performance measures in its *Emergency Management Capability* output to reflect the impact of the additional funding provided for this output.

## ***Safer electricity assets fund***

The 2011-12 Budget also provides funding to begin to replace ageing electricity assets, a primary cause of catastrophic bushfires in Victoria.<sup>493</sup> This is in response to a recommendation from the 2009 Victorian Bushfires Royal Commission, and contributes to the Department of Primary Industries' policy output. The Committee notes that there are no performance measures for this initiative within the budget papers, given that the relevant taskforce, the Powerline Bushfire Safety Taskforce, has yet to report to the Government.<sup>494</sup> This Taskforce is scheduled to deliver its final report by 30 September 2011,<sup>495</sup> which will recommend how this funding can best be used to reduce the risk of bushfires caused by powerlines.<sup>496</sup> The Committee considers that the Taskforce's final report will be critical to the Government in determining its plan to respond to this recommendation of the Royal Commission.

**Recommendation 80:** Once the details and priorities for the Safer Electricity Fund are established, the Government develop appropriate performance indicators for this initiative.

489 *ibid.*, p.55

490 *ibid.*

491 *ibid.*, p.253

492 *ibid.*, pp.252-3; Budget Paper No.3, *2010-11 Service Delivery*, May 2010, p.151; Budget Paper No.3, *2009-10 Service Delivery*, May 2009, p.156

493 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.74

494 *ibid.*, pp.297-8

495 Department of Justice, *Implementing the Government's Response to the 2009 Victorian Bushfires Royal Commission*, May 2011, p.58

496 Mr P. Ryan MP, Minister for Bushfire Response, 'Budget funding for Bushfires Royal Commission recommendations', media release, 3 May 2011

## **Implementing the recommendations of the Victorian Bushfires Royal Commission**

The Government has also provided funding, and a legislative framework, for an independent monitor to oversee the implementation of the Victorian Bushfires Royal Commission's recommendations. An Implementation Plan from the Government was provided to Parliament in May 2011.<sup>497</sup> This plan sets out the Government's bushfire response and includes detail of over 250 measures to mitigate, prepare, respond to and recover from future bushfires.<sup>498</sup> Most details of future funding are provided, with a brief description of the initiative. Expenditure is also detailed for the larger initiatives in previous years. However, the Committee notes that financial information is not provided for all bushfire response initiatives, and there is no acquittal against the Government's stated investment of over \$900 million to implement the recommendations of the Victorian Bushfires Royal Commission.<sup>499</sup> A prominent example is the fuel reduction activity which the Department of Sustainability and Environment leads. Although a dedicated *Planned Burning* project has been established, and would involve substantial funding given that it entails over 600 burns covering 200,000 hectares, no details of funding have been provided.<sup>500</sup>

The Committee commends the appointment of a dedicated, independent monitor to coordinate and report on the implementation of each commitment, particularly given the complexity and multi-agency nature of the bushfire response.<sup>501</sup> The monitor's report was tabled in Parliament in July 2011. It provides a comprehensive update on actions completed, and ongoing, against the Victorian Bushfires Royal Commission's recommendations. The Committee notes that this report also contains no financial information regarding the Government's stated investment of over \$900 million to implement the recommendations of the Victorian Bushfires Royal Commission.<sup>502</sup> Given the size of this undertaking, and its importance to Victoria, the Committee considers that there is significant public interest in this expenditure and that details should be provided to the Parliament and the community of how and when the \$900 million of funding is to be spent.

**Recommendation 81: A break-down of all current initiative funding and estimated expenditure over the longer-term dedicated to the implementation of the Victorian Bushfires Royal Commission recommendations be provided in a single place, in either the budget papers or reports from the independent bushfire monitor.**

### **9.4.2 Flood response**

Between September 2010 and February 2011, many Victorian towns and communities were affected by floods that caused widespread damage and loss. Several communities were

497 Department of Justice, *Implementing the Government's Response to the 2009 Victorian Bushfires Royal Commission*, May 2011

498 *ibid.*, p.3

499 *ibid.*

500 *ibid.*, p.89

501 *ibid.*, p.4

502 *ibid.*

subjected to successive floods, causing repeated damage: at the time of publication of the Committee's report, many Victorians are still recovering from this natural disaster.<sup>503</sup>

Following the floods, both the Commonwealth and Victorian Governments provided a range of initiatives to rebuild infrastructure, support local businesses and communities and address gaps in the warning systems.

One of the central themes of the 2011-12 Budget is the Government's response to these floods. Section 2.5 of Chapter 2 above details the Government's flood response over the five-year period to 2014-15.<sup>504</sup> Of note, 10 of the State's 11 departments have been allocated funding for flood response, with a total of \$426.5 million over four years. Of this, \$329.0 million is in output initiatives and \$97.5 million is in asset initiatives.<sup>505</sup>

The Committee considers that such a broad spread of management responsibility necessitates a coordinated implementation, reporting and evaluation framework.

In February 2011, the Premier announced a review of flood warnings and emergency response efforts across Victoria. This review is being led by Mr Neil Comrie, the Bushfires Royal Commission Implementation Monitor, given the similarities between the two roles, particularly in terms of the agencies and systems involved.<sup>506</sup> The Committee also notes that the Victorian Parliament's Environment and Natural Resources Committee is currently conducting a *Flood Mitigation Inquiry* and that a Commission of Inquiry is being undertaken in Queensland to examine the severe flooding in that state. The Committee commends the ongoing communication and liaison between these bodies.<sup>507</sup>

In July 2011, the Minister for Emergency Services released the interim report of the review into the Victorian floods.<sup>508</sup> Findings and recommendations have not been made at this stage but the interim report concluded that there are '*fundamental flaws in the Victorian emergency management framework*,'<sup>509</sup> which can only be rectified by a comprehensive emergency services framework. Such a framework would provide an 'all hazards', 'all agencies' approach to emergency management, being equally applicable to other emergencies such as bushfires. The Committee notes that this is stated as a matter of urgency:<sup>510</sup>

*Immediate action is required to reconstruct the relevant legislation, policy, procedures and structures to deliver an effective "all hazards", "all agencies" approach to emergency management in Victoria.*

The review will also undertake an assessment of the extent to which the allocations in the 2011-12 Budget and their expected outcomes will contribute to flood warnings and

503 Neil Comrie, *Review of the 2010-11 Flood Warnings and Response: Interim Report*, June 2011, p.4

504 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, pp.22-4

505 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.94-104

506 Neil Comrie, *Review of the 2010-11 Flood Warnings and Response: Interim Report* June 2011, p.6

507 *ibid.*, pp.16, 18

508 Hon. P. Ryan MP, Minister for Police and Emergency Services, 'Victorian Coalition Releases Comrie Interim Flood Report,' media release, 11 July 2011

509 Neil Comrie, *Review of the 2010-11 Flood Warnings and Response: Interim Report*, June 2011, p.26

510 *ibid.*

response.<sup>511</sup> The Committee looks forward to the final report of the review in December 2011 and to reconciling the initiatives in the 2011-12 Budget and future budgets to the major issues identified in the review.

The Committee notes that the terms of reference for this review include a focus on flood predictions and warnings, command and control arrangements, response (such as the adequacy of evacuations) and clean-up and recovery.<sup>512</sup> Given that multiple agencies have different flood-related roles and responsibilities, and ten departments have been allocated flood-related funding in the 2011-12 Budget, the Committee believes that a single implementation, reporting and evaluation framework is needed for fully understanding and coordinating the Government's response to this natural disaster. This framework should be developed so that it can also be of use in future disaster responses.

In developing this framework, the Government should consider the four elements of the 'Comprehensive Approach' to emergency management used by the Commonwealth Government: preparation, prevention, response and recovery.<sup>513</sup> The Committee notes that these are identified in the budget papers as '*the four key components of emergency management*'.<sup>514</sup>

**Recommendation 82: The Government develop a single implementation, reporting and evaluation framework that encompasses the 2010-11 Victorian flood response and will also be appropriate for future emergency management and responses. The Government should consider incorporating into this framework the emergency management phases of the 'Comprehensive Approach' – preparation, prevention, response and recovery.**

## 9.5 Urban water management

The Government has made urban water management a priority through the *Living Melbourne, Living Victoria* road map, released in March 2011. This focuses on water use in Melbourne and regional cities, particularly the use of rainwater, stormwater and recycled water.<sup>515</sup> Key principles include the reuse of water wherever possible and water self-sufficiency for cities.<sup>516</sup>

This is reflected in the 2011-12 Budget, which allocates over \$90 million of new funding to the Department of Sustainability and Environment to improve urban water use efficiency and recycling. Initiatives announced under this policy include:<sup>517</sup>

511 *ibid.*, p.24

512 *ibid.*, p.6

513 Emergency Management Australia, *Emergency Management in Australia: Concepts and Principles* (Manual Number 1), 2004, p.4

514 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.2

515 Premier of Victoria, 'Water and the Environment' <[www.premier.vic.gov.au/our-commitment/water-and-the-environment.html](http://www.premier.vic.gov.au/our-commitment/water-and-the-environment.html)>, accessed 10 July 2011

516 *ibid.*

517 Hon. P. Walsh MP, Minister for Water, 'Coalition Government delivers \$91 million for positive water reform,' media release, Tuesday 3 May 2011

- \$50.0 million over four years to help communities adopt integrated water cycle management through water-sensitive urban design;
- \$40.0 million over four years to provide rebates for water efficient appliances and items;
- \$5.0 million over two years to provide rebates for low income homes and small business for the purchase of water efficient products;
- \$0.5 million for a feasibility study looking at alternative water supply sources for Ballarat;
- requiring all Government major projects to collect and reuse rainwater which falls on an impervious surface;
- prioritising the effective and sustainable management of groundwater resources; and
- supporting existing housing stock to meet an average of 5 star rating.

All these initiatives contribute to the Department of Sustainability and Environment's *Sustainable Water Management and Supply* output. The Committee notes that there is a new quantity measure in the budget papers for the number of rebates approved for small business;<sup>518</sup> a corollary to this performance measure also exists for households. The Committee notes that the *Living Melbourne, Living Victoria* road map lists a number of outcomes to be achieved,<sup>519</sup> but has identified that there remains a need for an economic framework to assess initiatives to be developed.<sup>520</sup> The Committee considers that performance indicators for this program should flow from the development of this framework.

**Recommendation 83: The Department of Sustainability and Environment develop performance measures for the *Living Melbourne, Living Victoria* road map following the development of related initiatives.**

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518 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.309

519 Department of Sustainability and Environment, Office of Water  
<[www.water.vic.gov.au/programs/living-victoria2/living-victoria-roadmap](http://www.water.vic.gov.au/programs/living-victoria2/living-victoria-roadmap)> accessed 04 August 2011

520 Victorian Government, *Living Melbourne, Living Victoria Roadmap*, March 2011, p.16

## CHAPTER 10: THE GOVERNMENT'S RESPONSES TO THE COMMITTEE'S REPORT ON THE 2010-11 BUDGET ESTIMATES - PART THREE

### Chapter overview:

- 10.1** Of the Committee's 51 recommendations in its *Report on the 2010-11 Budget Estimates*, the Government has indicated that it supports 41, does not support 2 and that 8 are under review.
- 10.2** Many of the recommendations not supported or under review pertained to policies of the previous government.
- 10.3** The Committee notes a number of areas for potential improvements in future Government responses to the Committee's recommendations, including:
- indicating whether supported recommendations are fully or only partly supported;
  - providing timelines and updates about the Government's decisions regarding recommendations that are under review; and
  - providing timelines and additional details about further actions planned.
- 10.4** The Committee also notes a number of supported recommendations which might have been better classified as 'under review'.

### 10.1 Summary of the Government's responses to the Committee's report on the 2010-11 budget estimates

The Government's responses to the 51 recommendations in the Committee's *Report on the 2010-11 Budget Estimates — Part Three* were tabled out of session on 16 March 2011. The responses can be viewed on the Committee's website ([www.parliament.vic.gov.au/paec](http://www.parliament.vic.gov.au/paec)).

In total, 41 recommendations (80 per cent) were supported, 8 recommendations (16 per cent) were under review and 2 recommendations (4 per cent) were not supported. In many cases where recommendations were under review or not supported, it is because they pertain to policies of the previous government and are no longer relevant following the change of government in 2010.

#### 10.1.1 Supported recommendations

A major change from the previous government's format for responding to Committee recommendations occurred with respect to supported recommendations. The previous government would break down the recommendations that it accepted into 'accept', 'accept in part' or 'accept in principle'. In contrast, the current government has a different approach and does not make that distinction, with recommendations either supported or not.

Though some concerns have been expressed by the Committee in previous reports about the way that these categories were used,<sup>521</sup> the Committee considers that the current approach, of not differentiating between the recommendations wholly supported and those supported in part or in principle, reduces the transparency of the Government's responses. Table 10.1 provides some examples of supported recommendations where the Committee believes that a response of 'support in part' or 'support in principle' would have been more informative.

**Recommendation 84: In future responses to the Committee's recommendations, the Government indicate in the response column whether a recommendation is fully or only partly supported.**

A more pervasive problem within the Government's responses is that it appears to the Committee that many responses classified as supported would have been more appropriately classified as 'under review'. This matter is discussed further in Section 10.2 below.

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521 e.g. Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates — Part Three*, September 2010, pp. 223–5; Public Accounts and Estimates Committee., *Report on the 2008-09 Budget Estimates — Part Three*, October 2008, p.157.

Table 10.1: Examples of recommendations that were not wholly supported

| Committee's recommendation  | Government's response | Action to date/planned   | Committee comment   |
|---|-----------------------|--|---|
| Recommendation 22   |                       |  |   |
| The Department of Treasury and Finance consider <b>introducing into the budget papers an information paper</b> that consolidates and stratifies funding initiatives provided to the regional and rural sector of Victoria according to geographic location, topic and department.   | Support               | <p><i>Action taken to date</i></p> <p>The Government is committed to ensuring that public funding to regional and rural Victoria is transparent.</p> <p><i>Further action planned</i></p> <p>DTF will consider developing options to enhance the information available to the public on the link between new funding and plans and issues affecting specific regions of the State. However, <b>no new budget information papers will be introduced.</b></p>  | The recommendation included the introduction of a new budget information paper. This aspect of the recommendation is clearly not supported by the Government. 'Support in principle' might have been a more appropriate response. However, see Section 10.2 below regarding whether 'under review' might have been even more appropriate.   |
| Recommendation 29   |                       |  |   |
| The Department of Health undertake a substantial review of its performance measures to ensure that: <ul style="list-style-type: none"> <li>(a) the measures reflect the improvements anticipated in creating the new Department of Health; and</li> <li>(b) the measures are consistent with, and complement, the new national Performance and Accountability Framework.</li> </ul> | Support               | <p><i>Action taken to date</i></p> <p>An audit of all State and Commonwealth reported measures has identified common elements. An internal review of the Executive Performance Report has recommended greater alignment of measures to identify common components, and a structure for identifying the department's progress against strategic directions.</p> <p>As part of the annual budget cycle the department reviews and identifies appropriate performance measures for inclusion in Budget Paper 3.</p> <p><i>Further action planned</i></p> <p>The department will consider changes to published Budget Paper 3 measures as part of the annual cycle. The department will implement a new hospital performance website in 2011 to better align with the national Performance and Accountability Framework.</p> | <p>While part (b) of the recommendation is clearly supported, part (a) was still being considered at the time of the Government's responses. Therefore, 'support in part' would have been a more appropriate response.</p> <p>However, the Committee does note that there was a significant number of changes made to the Department's performance measures in the 2011-12 Budget, with 30 new measures introduced.</p> |

Source: Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 96<sup>th</sup> Report on the 2010-11 Budget Estimates* — Part Three, tabled 16 March 2011; emphasis added by the Committee

### **10.1.2 Recommendations under review**

Eight recommendations were classified as ‘under review’ in the Government’s response. In four cases, the recommendations related to policies or practices of the previous government that had been discontinued. However, the Government indicated that it will consider the recommendations in developing its own policies and practices.

In one case (Recommendation 39), further action planned included the Department of Sustainability and Environment ‘*reviewing the current reporting mechanisms over the next 12 months*’.

Three recommendations were ‘under review’ because the Government considered that there were reporting mechanisms in place that at least partially covered the recommendation but the Government considered that it needed to review whether any further action was required. The Government’s responses did not provide any indication of when such reviews would take place or who would conduct them.

**Recommendation 85:** In future responses to the Committee’s recommendations, the Government specify a timeframe by which a decision will be reached for each recommendation classified as ‘under review’.

**Recommendation 86:** In future responses to the Committee’s recommendations, the Government commit to updating the Public Accounts and Estimates Committee within three months of determining what action will be taken for each recommendation classified as ‘under review’.

### **10.1.3 Recommendations that were not supported**

There were two recommendations that were not supported. One related to the estimates underpinning the jobs target in the 2010-11 Budget. This information is no longer available due to the change of government. The other recommendation concerned the development of supplementary standards for Victorian kindergartens. The Government considered that these are unnecessary and that the standards agreed by the Council of Australian Governments are sufficient.

## **10.2 Quality of the Government’s responses**

In general, the Committee was pleased with the quality of the Government’s responses. Most provided a clear statement of the action taken to date and any further action planned.

In the Committee’s *Report on the 2010-11 Budget Estimates — Part Three*, the Committee of the previous Parliament recommended three areas in which the Government should consider improving its responses:<sup>522</sup>

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522 Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates — Part Three*, September 2010, p.223

- *assigning a timeframe for actioning each recommendation, given that in some cases the Government has indicated that the issue would be reviewed or consideration would be given to the particular matter;*
- *providing a commitment in the response, where appropriate, to keep the Committee informed of progress made in implementation or finalisation; and*
- *establishing more specific categories or providing a description of each response category (e.g. clearer definition of the 'accept in principle' category). The Committee found that, with regard to two responses, alternative ways of classifying the Government's intention may have been more appropriate.*

In its response, the current government indicated that the Department of Treasury and Finance 'has reviewed and updated the format of this Government response to the Committee's report, taking into account the specific suggestions made by the Committee.'<sup>523</sup> However, the Committee considers that further improvements could be made to the Government's responses with respect to each of these three areas.

With respect to timeframes, the Committee notes that the template for responses has been updated. The guide for readers now explains that recommendations that are supported or under review should include target timeframes where possible or appropriate.

In the actual responses, though, the Government has committed to further actions in response to 44 of the Committee's recommendations from the *Report on the 2010-11 Budget Estimates — Part Three*. Timelines were only provided for 8 of those 44 recommendations. In some of the remaining 36 cases, it would appear that the Government intends to implement the change at the next opportunity (e.g. in the next budget papers or the next annual report) and in some cases, the Government may be committing to ongoing actions rather than time-specific ones. There are a significant number of cases, though, where it is not clear what time line is intended, especially those cases where the Government's further action is to review or consider the recommendation.

**Recommendation 87: In future responses to the Committee's recommendations, for all recommendations with further action planned, the Government provide timelines by which it expects the actions to be completed.**

In terms of the classification of responses, the Committee identified six responses that were supported, in which the further actions were to consider or review the recommendation (see Table 10.2). It was not clear to the Committee why these responses were classified as 'support' rather than 'under review'. The Committee considers that it would be advantageous for the Department of Treasury and Finance to develop clearer guidance for government responses to ensure that there is no confusion between 'support' and 'under review'.

**Recommendation 88: The Department of Treasury and Finance clarify for the Government the differences between the classification 'under review' and 'support'.**

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523 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.20

**Table 10.2: Government responses supporting recommendations which might have been classified as ‘under review’**

| Committee's recommendation   | Government's response | Further action planned   |
|--|-----------------------|--|
| Recommendation 1   |                       |  |
| For the information needs of Parliament and the community, departments should provide in their annual reports, details of the progress made on asset investment projects and the outcomes delivered against project objectives.  | Support               | The Government <b>will consider options</b> to increase the disclosure requirements for significant asset investment projects in the 2011-12 Model Financial Report for government departments.  |
| Recommendation 2   |                       |  |
| Major Projects Victoria should develop suitable performance measures upon which the progress of major projects can be measured. Performance measures should be reported in future annual reports.  | Support               | DTF <b>will examine</b> , in consultation with MPV, <b>the appropriateness of any new measure</b> for future reporting.  |
| Recommendation 21  |                       |  |
| The Department of Treasury and Finance consider providing greater transparency over resourcing decisions involving regional and rural communities by linking budget allocations for new initiatives to strategic plans and critical issues affecting specific regions of the State.  | Support               | DTF <b>will consider developing options</b> to enhance the information available to the public on the link between new funding, plans and issues affecting specific regions of the State.  |
| Recommendation 22  |                       |  |
| The Department of Treasury and Finance consider introducing into the budget papers an information paper that consolidates and stratifies funding initiatives provided to the regional and rural sector of Victoria according to geographic location, topic and department.   | Support               | DTF <b>will consider developing options</b> to enhance the information available to the public on the link between new funding and plans and issues affecting specific regions of the State. However, no new budget information papers will be introduced.     |
| Recommendation 29  |                       |  |
| The Department of Health undertake a substantial review of its performance measures to ensure that:<br>(a) the measures reflect the improvements anticipated in creating the new Department of Health; and<br>(b) the measures are consistent with, and complement, the new national Performance and Accountability Framework. | Support               | The department <b>will consider changes</b> to published Budget Paper 3 measures as part of the annual cycle. The department will implement a new hospital performance website in 2011 to better align with national Performance and Accountability Framework. |

| Committee's recommendation   | Government's response | Further action planned  |
|--|-----------------------|---|
| <p>Recommendation 42</p> <p>Victoria Police consider redefining the 'Reduction in crimes against the person' performance measure to also disclose further information on key components, such as assaults and family violence.</p> | Support               | <p>Victoria Police <b>will consider providing further detailed reporting</b> relating to the relationship between total crime against the person and the separate offences that make up that category in future annual reports. This will continue to include analysis of the impact of assaults in public (street assaults) and assaults recorded in the context of family violence.</p> |

Source: Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 96<sup>th</sup> Report on the 2010-11 Budget Estimates* — Part Three, tabled 16 March 2011; emphasis added by the Committee

Regarding the Committee's suggestion that it be informed of progress made in the implementation or finalisation of recommendations, the Committee notes that no commitments to do so were made in the Government's responses. However, the Committee notes that a fulsome response was provided to Recommendation 50, which sought further details of earlier recommendations that were under review.

The Committee undertook its own analysis of the recommendations to identify how many of them, at the time of the Committee's inquiry, had been implemented by the Government. Many of the Committee's recommendations relate to matters which it is too soon to determine, primarily recommendations related to disclosure in departments' annual reports. However, 24 of the Committee's recommendations relate to the budget papers and so it is possible to assess how many of those were implemented in the 2011-12 budget papers (see Table 10.3).

**Table 10.3: Proportion of supported recommendations related to the budget papers that have been implemented in the 2011-12 budget papers**

|                           | Implemented | Not implemented | Too early to determine <sup>(a)</sup> |
|---------------------------|-------------|-----------------|---------------------------------------|
| Number of recommendations | 7           | 12              | 5                                     |

Note: (a) relates to recommendations for which implementation was dependent on other work being completed first, where that other work was not completed by the time of the Budget

Source: assessment by the Committee's secretariat

The Government is required to respond to the Committee's recommendations within six months of them being tabled.<sup>524</sup> The Committee notes that the six months between the tabling of the *Report on the 2010-11 Budget Estimates — Part Three* and the Government's responses included the State election and a change of Government. The 2011-12 Budget was released within six months of the change of Government. It is consequently not surprising that most supported actions had not been fully implemented by the time of the response or the release of the budget papers. Given this fact, and the large number of recommendations under review (and the supported recommendations which might have been classified as 'under review'), the Committee considers that following-up on the implementation and finalisation of recommendations is particularly important with respect to the recommendations of the 2010-11 Budget Estimates Inquiry. This is important for accountability and transparency.

**Recommendation 89: In its response to the 2011-12 Budget Estimates Inquiry, the Government provide an update on all recommendations from the 2010-11 Budget Estimates Inquiry which included further planned actions.**

One other area within the Government's responses where the Committee believes that there is room for improvement is with respect to the level of detail provided in terms of actions taken or planned. Most responses contained very detailed descriptions which were greatly appreciated by the Committee. There were some responses, however, which contained commitments to support the recommendation with little concrete detail in the actions. Still other recommendations contained general statements from which it was not possible for the Committee to determine to

524 *Parliamentary Committees Act 2003*, s.36

what extent the recommendation would be implemented. Table 10.4 provides several examples.

**Recommendation 90:** In future responses to the Committee's recommendations, in describing any further actions planned, the Government specify:

- (a) whether those actions will definitely include what the Committee has recommended; and
- (b) whether the planned actions will fully or partly implement the recommendation.

**Table 10.4: Examples of different levels of detail in the Government’s responses**

| Committee’s recommendation   | Government’s response | Action to date/planned   | Committee comment   |
|--|-----------------------|--|---|
| <p>Recommendation 16</p> <p>In future budget papers, for all revenue categories, the Department of Treasury and Finance:</p> <ul style="list-style-type: none"> <li>(a) explain significant variations from the revised estimates for the previous year; and</li> <li>(b) provide full comparisons with the previous two years’ expected and actual outcomes.</li> </ul> | <p>Support</p>        | <p><i>Action taken to date</i></p> <p>Budget Paper 4 includes an explanation of significant variations from the revised estimates for the previous year for some, but not all, revenue categories.</p> <p><i>Further action planned</i></p> <p>DTF will work to include in the 2011-12 State Budget:</p> <ul style="list-style-type: none"> <li>(a) explanations of significant quantifiable variations between forecast budgeted revenue figures and revised revenue estimates from the previous year for all major revenue categories; and</li> <li>(b) produce a comparison between forecast revenue in the budget year, revised revenue estimates from the previous year and actual revenue figures from two years prior, for all major revenue categories.</li> </ul> | <p>This response clearly identifies what actions will be taken and when they will be taken. All parts of the recommendation are clearly responded to.</p> |

| Committee's recommendation  | Government's response | Action to date/planned  | Committee comment   |
|---|-----------------------|---|---|
| <p>Recommendation 7</p> <p>For new revenue raising initiatives, the Department of Treasury and Finance consider reporting in the budget papers, the medium and long-term strategies that underpin these revenue streams in the context of <i>Growing Victoria Together</i>*.</p> <p>*Note: The 96th report was released during the term of the previous Government.</p> | <p>Support</p>        | <p><i>Action taken to date</i></p> <p><i>Growing Victoria Together</i> was a policy of the previous Government.</p> <p><i>Further action planned</i></p> <p>DTF will develop options to enhance the information available to the public on new revenue raising initiatives.</p>               | <p>This response could be improved by clearly identifying whether the options to enhance the information available will necessarily include the medium and long-term strategies that underpin the initiatives or whether the Government is not committed to supporting that. The response could also be improved by providing a timeline for the development of these options and the implementation of the selected option, and a commitment to inform the Committee of the outcome of this process.</p> |
| <p>Recommendation 3</p> <p>As part of the review of the Government's Integrated Management Cycle, the Department of Treasury and Finance require each department to develop a long-term strategic policy framework which brings together all major policy decisions, directions and strategies that underpin its budget.</p>  | <p>Support</p>        | <p><i>Action taken to date</i></p> <p>DTF has reviewed the Integrated Management Cycle and developed a best practice model for release in 2011.</p> <p><i>Further action planned</i></p> <p>DTF is developing proposals for a strengthened planning and performance management framework.</p> | <p>It is not clear from the Government's response whether it intends to implement the Committee's recommendation entirely, partly or not at all.</p>  |

Source: Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 96<sup>th</sup> Report on the 2010-11 Budget Estimates* — Part Three, tabled 16 March 2011

## **APPENDIX 1: LIST OF PEOPLE AND DEPARTMENTS PROVIDING EVIDENCE AT THE PUBLIC HEARINGS AND RESPONSES TO THE BUDGET ESTIMATES QUESTIONNAIRE**

### **1.1 People providing evidence at the public hearings**

**6 May 2011**

**Portfolio: Treasurer**

**Department of Treasury and Finance**

Mr K. Wells, Treasurer,

Mr G. Hehir, Secretary,

Mr D. Yates, Deputy Secretary, Budget and Financial Management Division,

Mr J. Fitzgerald, Deputy Secretary, Commercial Division, and

Dr L. Williams, Under Secretary, Department of Treasury and Finance.

**9 May 2011**

**Parliamentary Departments**

Mr K. Smith, MP, Speaker of the Legislative Assembly,

Mr B. Atkinson, MLC, President of the Legislative Council,

Mr R. Purdey, Clerk of the Legislative Assembly,

Mr W. Tunnecliffe, Clerk of the Legislative Council, and

Mr P. Lochert, Secretary, Department of Parliamentary Services.

**10 May 2011**

**Portfolios: Public Transport  
Roads  
Ports  
Regional Cities  
Racing  
Major Projects**

**Department of Transport  
Department of Planning and Community Development  
Department of Business and Innovation**

Mr T. Mulder, Minister for Public Transport,

Mr J. Betts, Secretary,

Mr H. McKenzie, Director of Public Transport,

Mr R. Oliphant, Chief Finance Officer, and

Mr T. Sargant, Deputy Director, Public Transport, Engineering and Asset Management,  
Department of Transport.

Mr T. Mulder, Minister for Roads,

Mr J. Betts, Secretary,

Mr R. Oliphant, Chief Finance Officer,

Mr G. Liddle, Chief Executive, VicRoads, and

Mr B. Gidley, Chief Operating Officer, VicRoads, Department of Transport.

Dr D. Napthine, Minister for Ports

Mr J. Betts, Secretary,

Mr T. Garwood, Executive Director, Freight, Logistics and Marine Division,

Ms G. Miles, Deputy Secretary, Strategic Transport Planning, and

Mr R. Oliphant, Chief Finance Officer, Department of Transport.

Dr D. Naphine, Minister for Regional Cities,

Mr Y. Blacher, Secretary,

Mr G. Forck, Chief Finance Officer,

Mr X. Csar, Acting Deputy Secretary, Regional Development Victoria, and

Ms L. Healy, Executive Director, Policy and Planning, Department of Planning and Community Development.

Dr D. Naphine, Minister for Racing,

Ms P. Armytage, Secretary,

Mr S. Condrón, Chief Finance Officer, and

Mr R. Kennedy, Executive Director, Gaming and Racing, Department of Justice.

Dr D. Naphine, Minister for Major Projects,

Mr H. Ronaldson, Secretary,

Mr A. Smith, Deputy Secretary, Investment and Major Projects, and

Mr J. Wiles, Acting Executive Director, Major Projects Victoria, Department of Business and Innovation.

**11 May 2011**

**Portfolios: Health  
Ageing  
Education**

**Department of Health**

**Department of Education and Early Childhood Development**

Mr D. Davis, Minister for Health,

Ms F. Thorn, Secretary,

Mr L. Wallace, Executive Director, Finance and Corporate Services Division,

Prof. C. Brook, Executive Director Wellbeing, Integrated Care and Ageing Division, and

Ms F. Diver, Acting Executive Director, Hospital and Health Service Performance, Department of

Health.

Mr D. Davis, Minister for Ageing,

Ms F. Thorn, Secretary,

Mr L. Wallace, Executive Director, Finance and Corporate Services Division,

Prof. C. Brook, Executive Director, Wellbeing, Integrated Care and Ageing Division, and

Ms J. Herington, Acting Director, Aged Care Branch, Department of Health.

Mr M. Dixon, Minister for Education,

Mr J. Rosewarne, Secretary,

Mr D. Fraser, Deputy Secretary, Office of Government School Education,

Mr C. Wardlaw, Deputy Secretary, Office for Policy, Research and Innovation, and

Mr J. Miles, Acting Executive Director, Office for Resources and Infrastructure, Department of Education and Early Childhood Development.

**12 May 2011**

**Portfolios: Police and Emergency Services  
Bushfire Response  
Regional and Rural Development  
Planning**

**Department of Justice**

**Department of Planning and Community Development**

Mr P. Ryan, Minister for Police and Emergency Services,

Ms P. Armytage, Secretary,

Mr T. Leech, Executive Director, Police, Emergency Services and Corrections, Department of Justice, and

Chief Commissioner S. Overland, Victoria Police.

Mr P. Ryan, Minister for Bushfire Response,

Ms P. Armytage, Secretary,

Mr T. Leech, Executive Director, Police, Emergency Services and Corrections, and

Mr N. Robertson, Coordinator, Bushfires Royal Commission, Department of Justice.

Mr. P. Ryan, Minister for Regional and Rural Development,

Mr Y. Blacher, Secretary,

Mr G. Forck, Chief Finance Officer,

Mr X. Csar, Acting Deputy Secretary, Regional Development Victoria, and

Ms S. Jaquinot, Deputy Secretary, Community Development, Department of Planning and Community Development.

Mr M. Guy, Minister for Planning,

Mr Y. Blacher, Secretary,

Mr G. Forck, Chief Finance Officer,

Ms P. Digby, Deputy Secretary, Planning and Local Government, and

Mr D. Hodge, Executive Director, Planning Services and Urban Development, Department of Planning and Community Development.

### **13 May 2011**

**Portfolios: Attorney-General  
Finance  
Premier  
Arts**

**Department of Justice  
Department of Treasury and Finance  
Department of Premier and Cabinet**

Mr R. Clark, Attorney-General,

Ms P. Armytage, Secretary,

Mr N. Twist, Executive Director, Legal and Equity, and

Ms G. Moody, Executive Director, Strategic Projects and Planning, Department of Justice.

Mr R. Clark, Minister for Finance,

Mr G. Hehir, Secretary,

Mr D. Yates, Deputy Secretary, Budget and Financial Management Division,

Dr L. Williams, Undersecretary, and

Mr J. Fitzgerald, Deputy Secretary, Commercial Division, Department of Treasury and Finance.

Mr E. Baillieu, Premier,

Ms H. Silver, Secretary,

Mr P. Philip, Deputy Secretary, Policy and Cabinet Group,

Mr T. Cook, Deputy Secretary, Government and Corporate Group, and

Mr M. Duckworth, Executive Director, Citizenship and Resilience, Department of Premier and Cabinet.

Mr E. Baillieu, Minister for the Arts,

Ms H. Silver, Secretary,

Ms P. Hutchinson, Director, Arts Victoria,

Mr D. Carmody, Deputy Director, Agencies and Infrastructure, and

Mr G. Andrews, Deputy Director, Policy and Programs, Department of Premier and Cabinet.

**16 May 2011**

**Portfolios: Innovation, Services and Small Business  
Tourism and Major Events  
Sport and Recreation  
Veterans' Affairs**

**Department of Business and Innovation  
Department of Planning and Community Development**

Ms L. Asher, Minister for Innovation, Services and Small Business,

Mr H. Ronaldson, Secretary,

Mr R. Straw, Deputy Secretary, Innovation and Technology,

Mr J. Strilakos, Chief Financial Officer, and

Mr R. Arwas, Executive Director, Small Business Victoria, Department of Business and Innovation.

Ms L. Asher, Minister for Tourism and Major Events,

Mr H. Ronaldson, Secretary,

Mr M. Stone, Chief Executive Officer and Deputy Secretary, Tourism and Aviation, and

Mr J. Dalton, Director, Strategy and Policy, Department of Business and Innovation.

Mr H. Delahunty, Minister for Sport and Recreation,

Mr Y. Blacher, Secretary,

Mr G. Forck, Chief Finance Officer,

Dr P. Hertan, Deputy Secretary, Sport and Recreation Victoria, and

Mr J. Montgomery, Director, Community Sport and Recreation, Department of Planning and Community Development.

Mr H. Delahunty, Minister for Veterans' Affairs,

Mr Y. Blacher, Secretary,

Mr G. Forck, Chief Finance Officer,

Dr P. Hertan, Deputy Secretary, Veterans Unit, and

Mr D. Roberts, Manager, Veterans Unit, Department of Planning and Community Development.

**17 May 2011**

**Portfolios: Higher Education and Skills**  
**Minister responsible for the teaching profession**  
**Corrections**  
**Crime Prevention**  
**Minister responsible for the establishment of an**  
**anti-corruption commission**  
**Multicultural Affairs and Citizenship**

**Department of Education and Early Childhood Development**  
**Department of Justice**  
**Department of Premier and Cabinet**

Mr P. Hall, Minister for Higher Education and Skills,

Mr J. Rosewarne, Acting Secretary,

Ms K. Peake, Deputy Secretary, Skills Victoria,

Mr J. Miles, Acting Executive Director, Office for Resources and Infrastructure, and

Mr P. Clarke, Executive Director, Tertiary Education Policy, Governance and Planning,  
Department of Education and Early Childhood Development.

Mr P. Hall, Minister responsible for the teaching profession,

Mr J. Rosewarne, Acting Secretary,

Mr J. Miles, Acting Executive Director, Office for Resources and Infrastructure,

Mr D. Fraser, Deputy Secretary, Office for Government School Education, and

Mr T. Bugden, Acting Executive Director, Office for Resources and Infrastructure, Department of  
Education and Early Childhood Development.

Mr A. McIntosh, Minister for Corrections,

Ms P. Armytage, Secretary,

Mr T. Leech, Executive Director, Police, Emergency Services and Corrections, and

Mr R. Hastings, Commissioner, Corrections Victoria, Department of Justice.

Mr A. McIntosh, Minister for Crime Prevention,

Ms P. Armytage, Secretary,

Mr T. Leech, Executive Director Police, Emergency Services and Corrections, and

Ms J. Brennan, Director, Crime Prevention, Department of Justice.

Mr A. McIntosh, Minister responsible for the establishment of an anti-corruption commission,

Ms P. Armytage, Secretary, Department of Justice and

Mr T. Cook, Deputy Secretary, Government and Corporate Group, and

Mr G. Hill, Executive Director, Anti-Corruption and Integrity Taskforce, Department of Premier and Cabinet.

Hon. N. Kotsiras, Minister for Multicultural Affairs and Citizenship,

Mr H. Akyol, Interim Chairperson, Victorian Multicultural Commission, and

Mr M. Duckworth, Executive Director, Citizenship and Resilience, Department of Premier and Cabinet.

**18 May 2011**

**Portfolios: Gaming**  
**Consumer Affairs**  
**Energy and Resources**  
**Children and Early Childhood Development**  
**Housing**  
**Local Government**  
**Aboriginal Affairs**

**Department of Justice**  
**Department of Primary Industries**  
**Department of Education and Early Childhood Development**  
**Department of Human Services**

Mr M. O'Brien, Minister for Gaming,

Ms P. Armytage, Secretary,

Mr R. Kennedy, Executive Director, Gaming and Racing,

Ms C. Carr, Director, Gambling Policy, Research and Coordination, and

Mr S. Condrón, Chief Finance Officer, Department of Justice.

Mr M. O'Brien, Minister for Consumer Affairs,

Ms P. Armytage, Secretary,

Mr S. Condrón, Chief Finance Officer,

Dr C. Noone, Executive Director, Consumer Affairs, and

Ms C. Gale, Executive Director, Community Operations and Strategy, Department of Justice.

Mr M. O'Brien, Minister for Energy and Resources,

Mr R. Bolt, Secretary,

Mr R. Aldous, Deputy Secretary, Energy and Earth Resources,

Mr C. O'Farrell, Chief Financial Officer,

Mr P. Naughton, Executive Director, Energy Sector Development, Department of Primary Industries.

Ms W. Lovell, Minister for Children and Early Childhood Development,

Mr J. Rosewarne, Acting Secretary,

Mr P. Linossier, Acting Deputy Secretary, Office for Children and Portfolio Coordination,

Mr J. Miles, Acting Executive Director, Office for Resources and Infrastructure, and

Mr M. Maher, Acting Executive Director, Early Childhood Development, Department of Education and Early Childhood Development.

Ms W. Lovell, Minister for Housing,

Ms G. Callister, Secretary,

Ms Margaret Crawford, Executive Director, Housing and Community Building Division,

Ms M. Kirchner, Director, Policy, Planning and Strategy Branch, Housing and Community Building Division, and

Mr R. Jenkins, Assistant Director, Budget and Performance, Housing and Community Building Division, Department of Human Services.

Mrs J. Powell, Minister for Local Government,

Mr Y. Blacher, Secretary,

Mr G. Forck, Chief Financial Officer,

Ms P. Digby, Deputy Secretary, Planning and Local Government, and

Mr J. Watson, Executive Director, Local Government Victoria, Department of Planning and Community Development.

Mrs J. Powell, Minister for Aboriginal Affairs,

Mr Y. Blacher, Secretary,

Mr G. Forck, Chief Financial Officer,

Ms J. Samms, Executive Director, Aboriginal Affairs Taskforce, and

Mr I. Hamm, Executive Director, Aboriginal Affairs Victoria, Department of Planning and Community Development.

**19 May 2011**

**Portfolios: Agriculture and Food Security  
Water  
Mental Health  
Women's Affairs  
Community Services**

**Department of Primary Industries  
Department of Sustainability and Environment  
Department of Health  
Department of Planning and Community Development  
Department of Human Services**

Mr P. Walsh, Minister for Agriculture and Food Security,

Mr R. Bolt, Secretary,

Mr C. O'Farrell, Chief Financial Officer, and

Prof. G. Spangenberg, Executive Director, Biosciences Research Division, Department of Primary Industries.

Mr P. Walsh, Minister for Water,

Mr G. Wilson, Secretary,

Dr J. Doolan, Acting General Manager, Office of Water, and

Mr M. Clancy, Deputy Chief Finance Officer, Department of Sustainability and Environment.

Ms M. Wooldridge, Minister for Mental Health,

Ms F. Thorn, Secretary,

Mr L. Wallace, Executive Director, Finance and Corporate Services Division, and

Dr K. Edwards, Executive Director, Mental Health, Drugs and Regions Division, Department of Health.

Ms M. Wooldridge, Minister for Women's Affairs,

Ms G. Callister, Secretary,

Mr J. Higgins, Acting Executive Director, Corporate Services Division, and

Mr D. Craig, Executive Director, Industry Workforce and Strategy Division, Department of Human Services, and

Ms J. McCabe, Director, Office of Women's Policy, Department of Planning and Community Development.

Ms M. Wooldridge, Minister for Community Services,

Ms G. Callister, Secretary,

Mr J. Higgins, Acting Executive Director, Corporate Services Division,

Ms C. Asquini, Executive Director, Children, Youth and Families Division, and

Mr A. Rogers, Executive Director, Disability Services Division, Department of Human Services.

## **20 May 2011**

**Portfolios:** *Environment and Climate Change*  
*Youth Affairs*  
*Assistant Treasurer*  
*Technology*  
*Minister responsible for the aviation industry*  
*Employment and Industrial Relations*  
*Manufacturing, Exports and Trade*

**Department of Sustainability and Environment**  
**Department of Human Services**  
**Department of Treasury and Finance**  
**Department of Business and Innovation**

Mr R. Smith, Minister for Environment and Climate Change,

Mr G. Wilson, Secretary, and

Mr M. Clancy, Deputy Chief Finance Officer, Department of Sustainability and Environment.

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Mr R. Smith, Minister for Youth Affairs,

Ms G. Callister, Secretary,

Mr J. Higgins, Acting Executive Director, Corporate Services,

Mr D. Craig, Executive Director, Industry Workforce and Strategy, Department of Human Services, and

Ms K. Krsevan, Director, Office for Youth, Department of Human Services.

Mr G. Rich-Phillips, Assistant Treasurer,

Mr D. Yates, Acting Secretary,

Mr A. Todhunter, Deputy Secretary, Government Services Division,

Ms J. Dore, Chief Executive Officer, Transport Accident Commission, and

Mr G. Tweedly, Chief Executive Officer, WorkSafe Victoria, Department of Treasury and Finance.

Mr G. Rich-Phillips, Minister for Technology,

Mr H. Ronaldson, Secretary,

Mr R. Straw, Deputy Secretary, Innovation and Technology, and

Mr J. Strilakos, Chief Financial Officer, Department of Business and Innovation.

Mr G. Rich-Phillips, Minister responsible for the aviation industry,

Mr H. Ronaldson, Secretary,

Mr J. Strilakos, Chief Financial Officer,

Mr R. O'Brien, Director, Aviation and Investment, and

Mr D. Latina, Director, Business Engagement, Department of Business and Innovation.

Mr R. Dalla-Riva, Minister for Employment and Industrial Relations,

Mr H. Ronaldson, Secretary,

Mr M. O'Connor, Deputy Secretary, Workforce Victoria,

Mr Y. Goldfarb, Manager, Workforce Participation Programs, and

Mr J. Strilakos, Chief Financial Officer, Department of Business and Innovation.

Mr R. Dalla-Riva, Minister for Manufacturing, Exports and Trade,

Mr H. Ronaldson, Secretary,

Mr J. Strilakos, Chief Financial Officer,

Mr J. Hanney, Deputy Secretary, Trade and Industry Development, and

Mr D. Hanna, Deputy Secretary, Trade and Industry Coordination, Department of Business and Innovation.

## **1.2 Responses received to the Committee's 2011-12 budget estimates questionnaire**

Department of Business and Innovation

Department of Education and Early Childhood Development

Department of Health

Department of Human Services

Department of Justice

Department of Planning and Community Development

Department of Premier and Cabinet

Department of Primary Industries

Department of Sustainability and Environment

Department of Transport

Department of Treasury and Finance

Parliamentary Departments