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Report on the 2012-13 Financial and Performance Outcomes

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Parliament of Victoria
Public Accounts and Estimates Committee

Report on the 2012-13 Financial and Performance Outcomes

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DUTIES OF THE COMMITTEE

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

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

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

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

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

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

ACRONYMS AND TERMS

ABS	Australian Bureau of Statistics
Agency	Government entities which generally receive their funding through 'departments' and for which 'departments' are responsible for reporting. Examples include Victoria Police, hospitals and TAFEs. Agencies, like 'departments', are directly accountable through one or more ministers to Parliament.
Asset initiative	A new program or project ('initiative') that delivers assets. See 'asset investment'.
Asset investment	Expenditure on assets (generally infrastructure such as roads or hospitals) as opposed to expenditure on the delivery of products and services ('outputs').
Budget estimates	Forecasts for future years made in the budget papers about matters such as income, expenditure, assets, liabilities and goods and services to be delivered.
Budget papers	The set of documents released with the annual budget. These normally include the Treasurer's speech and volumes on: strategy and outlook; service delivery; capital investment; and the estimated financial statements. The set also includes the annual financial report, published after the end of the budget period.
Investments in financial assets for policy purposes	'Asset investment' funded through another sector (most commonly funded by the 'general government sector' and through the 'public non-financial corporations sector') for an asset that becomes part of that other sector. May be reported as gross inflows, gross outflows or net cash flows.
Contingency provisions	Amounts included in a budget for expenses that have not been determined at the time of the budget. These provisions are for both predictable expenditure (such as dealing with population growth and initiatives to be released in future budgets) and unpredictable expenditure (such as unforeseen natural disasters).
DEECD	Department of Education and Early Childhood Development
Department	Large government entities. At 30 June 2013 there were 11 departments in Victoria, plus the Parliamentary Departments. On 1 July 2013 these 11 were consolidated into nine. Funding for most 'agencies' is generally provided through departments and departments are required to report on the financial and performance results of the agencies for which they are responsible. Departments, like 'agencies', are directly accountable through one or more ministers to Parliament.

Depreciation	The amount of the reduction in value of the assets from being used during the year, and the amount of the asset's useful life that has been consumed during the year. This amount is listed as an expense on the operating statement, and the cash equivalent to that amount is usually used to partially fund 'asset investment'.
DSDBI	Department of State Development, Business and Innovation
DTF	Department of Treasury and Finance
DTPLI	Department of Transport, Planning and Local Infrastructure
Entity	Either a 'department' or an 'agency'.
Forward estimates period	The period for which estimates are made in the budget papers. This includes the budget year and the following three financial years. The forward estimates period for the 2012-13 Budget was 2012-13 to 2015-16 inclusive.
General government sector	Government 'entities' which provide services either with no charge to the user or with charges significantly below the cost of providing the services. This includes all 'departments' and many 'agencies'.
Gross state product (GSP)	The total value of goods and services produced by the state in a year. This includes the goods and services delivered by the Government and the private sector.
GST	Goods and services tax
HVHR	High-Value, High-Risk
Information and Communication Technology (ICT) projects	A program or project that delivers hardware and/or software assets to assist output delivery.
Initiative	A specific program or project detailed in the budget papers. Budget papers can include 'asset initiatives', 'output initiatives', 'revenue initiatives', 'revenue foregone initiatives' and 'savings initiatives'.
Liabilities	Amounts that an organisation is obliged to pay in future years. Examples include borrowings and defined benefits superannuation plans.
MPV	Major Projects Victoria
Net borrowings	New interest bearing liabilities raised from public borrowings during the year (less interest bearing liabilities repaid). Not to be confused with 'Net lending/borrowing'.
Net debt	A calculation based on the difference between the value of selected categories of financial assets and financial liabilities. Essentially, the difference in value between what the Government owes and assets that it could easily convert to cash. Not all financial assets and liabilities are included.

Net lending/ borrowing	A measure of financial performance in a year, calculated by adding economic flows (such as changes in the values of financial assets and liabilities) and ‘asset investment’ (net of asset funding) to ‘net result from transactions’.
Net result	A measure of an entity’s financial performance in a year which is calculated by taking the ‘net result from transactions’ and then adding other economic flows, such as changes in the values of financial assets and liabilities. The net result is different to the ‘net result from transactions’ (see below). ‘Asset investment’ is not included in either the net result or the ‘net result from transactions’.
Net result from transactions	See ‘net operating balance’.
Non-financial public sector (NFPS)	The ‘general government sector’ and ‘public non-financial corporations sector’ consolidated together.
Net operating balance	A measure of an entity’s financial performance in a year which is calculated by subtracting an entity’s expenses in the year from its income. Also known as the ‘net result from transactions’ or ‘net operating balance’. ‘Asset investment’ is not included in the operating balance.
Net worth	A measure of the total value of the public sector’s assets, less its liabilities.
Output	An aggregate of goods and services (such as health care or policing services) delivered by a ‘department’ or its agencies. Outputs are identified in the budget papers.
Output expenditure	Expenditure on ‘outputs’ (that is, goods and services). This is distinct from ‘asset investment’ although it includes expenditure on ‘public private partnerships’.
Output initiative	A new program or project (‘initiative’) that delivers goods and services (part of a department’s ‘outputs’). Output initiatives are usually for a limited period of time, although they are sometimes perpetual.
PSO	Protective Services Officer
Public private partnership (PPP)	An arrangement in which the private sector delivers an asset on behalf of the Government. Ownership of the asset usually passes to the Government after a defined period of time. Government expenditure for PPP projects is included in ‘output expenditure’ rather than ‘asset investment’.
Purchases of non-financial assets	‘Asset investment’ by the ‘general government sector’ managed by an ‘entity’ within that sector for an asset that becomes part of that sector.
Public financial corporations (PFC) sector	Government ‘agencies’ which provide financial services, such as the Treasury Corporation of Victoria or the Transport Accident Commission.

Public non-financial corporations (PNFC) sector	Government ‘agencies’ which provide goods or services with charges that recover most of the cost of producing them, such as water authorities and trusts administering certain facilities. Does not include ‘agencies’ providing financial services (see ‘public financial corporations sector’).
Public sector as a whole	The ‘general government sector’, ‘public non-financial corporations sector’ and ‘public financial corporations sector’ consolidated together. Referred to in the budget papers and Annual Financial Report as the ‘State of Victoria’.
Revenue	Income received by the Government, mostly from State taxes and grants from the Commonwealth Government.
Savings initiative	Changes in the provision of ‘outputs’ that result in reductions to the cost of the ‘output’. This may be done by reducing the services provided or providing the same services more efficiently. Savings initiatives are only one factor affecting ‘output expenditure’. Thus, they may not reduce a department’s total ‘output expenditure’ compared to the previous year if other factors (such as ‘output initiatives’) are greater in value. Savings initiatives are usually perpetual.
State of Victoria	See ‘Public sector as a whole’.
TAFE	Technical and Further Education
Total estimated investment (TEI)	An estimate of the total amount of expenditure required to deliver an ‘asset investment’ project.
VET	Vocational education and training

CHAIR'S FOREWORD

I am pleased to present the *Report on the 2012-13 Financial and Performance Outcomes*.

This is the second and final report produced by the Public Accounts and Estimates Committee as part of the Inquiry into the 2012-13 Financial and Performance Outcomes. The first report, the *Review of the Performance Measurement and Reporting System*, was tabled in March 2014 and examined the Government's performance measurement system.

This report examines the achievements of the Victorian public sector in 2012-13, and its financial performance during the year compared to the expectations at the time of the 2012-13 Budget.

The Committee has assessed the State's performance in a number of areas, including the overall financial outcomes for all the three sectors of government that make up the Victorian public sector: the general government sector, the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector.

The report examines the achievements of all three sectors in 2012-13 including an assessment of how revenue, expenditure, liabilities and debt components compared to Budget expectations.

The report includes two chapters on asset investment. The first examines the provision of assets by the Government through the general government sector and their progress compared to timelines and cost targets. The second looks at reporting practices for asset projects in Victoria.

Despite the current economic challenges, the Victorian economy showed positive results in 2012-13. Gross state product and employment performed better than expected, while inflation was lower compared to budget estimates. The Government also introduced a number of initiatives with a budgetary impact, including the provision of Protective Services Officers, and measures to protect Victoria's vulnerable children. All of these factors and their influence on the State's financial outcomes are discussed in the report.

The general government sector delivered a net operating balance of \$316.4 million in 2012-13, which was \$161.5 million higher than originally expected.

The Government invested \$5.9 billion on a range of infrastructure projects and assets during 2012-13. This figure represented an increase over the previous financial year.

The report examines these and other issues in detail, and discusses the reasons behind the financial results as well as the implications.

Since coming to office, the Government has initiated a range of improvements to the precision and presentation of the financial disclosure documents. The report makes a number of recommendations which, if implemented, will build on those reforms.

I would like to express my thanks to the many people whose effort and cooperation has made this report possible. This includes my fellow Committee members, the ministers and departmental staff who provided responses to our substantial questionnaires, and the Committee's secretariat.

DAVID MORRIS MP
Chair

FINDINGS AND RECOMMENDATIONS

CHAPTER 2

2.2

Overall Financial Outcomes

The public sector's finances in 2012-13

FINDING: Purchases of non-financial assets by the public sector totalled \$7.6 billion in 2012-13, \$969.9 million less than budgeted. *page 11*

FINDING: The net operating balance decreased and the net borrowing level increased in 2012-13, reflecting the fact that expenditure exceeded revenue by a larger amount in 2012-13 than in 2011-12. However, the net result for the public sector as a whole was positive, at \$9.5 billion. This was due to gains in the value of financial assets and liabilities in the public financial corporations sector and a revaluation of the defined benefits superannuation liability (mostly due to changes in bond rates). *page 13*

FINDING: Net debt for the public sector increased from \$8.9 billion to \$15.6 billion during 2012-13. This was driven by net borrowings and the recognition of the liabilities for public private partnership projects. *page 14*

FINDING: The ratio of net direct investment (net cash flows from investments in non-financial assets) to depreciation remains above 1.0, meaning that new infrastructure is being built faster than the existing infrastructure is being used up. *page 14*

FINDING: The public sector's net worth grew to \$123.6 billion over 2012-13. This is an increase from the June 2012 net worth, though it remains below the June 2011 level. A variety of factors have influenced the changing value of the net worth, including significant shifts in the recognised value of the public sector's superannuation liability due to changes in the financial markets. *page 15*

2.3

Components of the public sector

FINDING: For the general government sector, revenue and output expenditure both exceeded the original budget estimates. Net borrowings and asset investment were less than estimated. *page 18*

FINDING: Both revenue and expenditure in the PNFC sector were less than estimated. Because the variance for revenue was larger, the net operating balance was lower than the budget estimate. Asset investment by the sector was less than expected, partly because of the reclassification of some expenses to the general government sector. *page 20*

FINDING: For the public financial corporations sector, both operating revenue and expenditure were similar to the budget estimates. The result was a net operating balance of \$-978.5 million. However, when income from investments and other economic flows are factored in, the net result for the sector was \$3.3 billion. *page 22*

2.4

Economic conditions that influenced outcomes

FINDING: Victoria's gross state product grew during 2012-13. With respect to other economic factors influencing the budget, some were more positive than expected, while others were less positive than expected. *page 23*

FINDING: Partly as a result of the economic conditions, taxation revenue provided \$252.2 million less than originally estimated and revenue from the GST was \$52.2 million less than anticipated. *page 23*

2.5

Government actions that influenced outcomes

FINDING: Initiatives released after the Budget, negotiating additional dividends and a decision to process a backlog of fines, impacted on the finances in 2012-13. *page 24*

2.6

Other external factors that influenced outcomes

FINDING: The revenue received through specific-purpose grants from the Commonwealth was less than had been anticipated in the Budget due to changes to a number of programs. Enterprise bargaining agreements reached in 2012-13 with public sector employees resulted in higher employee expenses than anticipated in the budget estimates. *page 26*

2.7

Financial outcomes compared to targets

FINDING: The Government's medium-term fiscal strategy contains four targets. Two targets relate to future years and cannot yet be assessed. The Government has met both of the targets that can be assessed. *page 27*

CHAPTER 3

3.2

Revenue

General government sector

FINDING: Total revenue for the general government sector was \$48.6 billion in 2012-13. This was \$256.2 million (0.5 per cent) above the amount anticipated in the 2012-13 budget papers. The major sources of revenue for 2012-13 were Commonwealth grants and the State's own-sourced taxation, providing 77 per cent of the total. page 30

FINDING: Total Grants from the Commonwealth were \$332.1 million (1.5 per cent) less than expected in the 2012-13 budget papers. This was mostly a result of less-than-expected specific-purpose grants in infrastructure and education. page 32

FINDING: Revenue from State taxation in 2012-13 was \$252.2 million (1.6 per cent) less than expected. According to the Department of Treasury and Finance, this was primarily due to less-than-predicted revenue from land transfer duty, gambling taxes and payroll tax. Partially offsetting this was more revenue than expected from land tax. Revenue from taxes on racing fell sharply from 2011-12. page 33

FINDING: Dividend revenue for the general government sector was \$339.9 million more than originally forecast. The State's 2012-13 *Financial Report* has reported that this was primarily a result of dividends from the State Electricity Commission of Victoria, including a special dividend. page 34

FINDING: The level of dividends in the general government sector received from other sectors can fluctuate over time with the timing of dividends from the State Electricity Commission of Victoria contributing to an increase in 2012-13. Dividends are forecast to decrease to consistently reduced levels over the next four years. page 35

FINDING: Revenue from sales of goods and services by the general government sector was \$116.1 million more than expected. The 2012-13 *Financial Report* states that this was primarily due to an increase in other regulatory fees. page 35

FINDING: 'Other items of revenue' for the general government sector was \$393.3 million more than estimated in the 2012-13 Budget. Departments advised the Committee this was due to: the processing of a fines backlog from the previous year; recognition of assets received below their value by VicRoads, Public Transport Victoria and the Department of Environment and Primary Industries; more-than-expected land sales; and the rearrangement of Commonwealth hospital funding during the year. *page 37*

3.3

Public non-financial corporations sector

FINDING: Revenue for the public non-financial corporations sector was \$8.3 billion in 2012-13. This was \$579.1 million below the amount anticipated in the 2012-13 budget papers, but close to the amount expected in the 2012-13 Budget Update. Identification of variances against budgets is difficult in this sector as budgets are not published in agencies' annual reports and variances in the Annual Financial Report are based on the revised estimate rather than the initial budget. *page 38*

RECOMMENDATION 1: The Department of Treasury and Finance investigate ways of changing the guidance for entities other than departments to enable the Parliament and other stakeholders to compare the actual revenue for those entities against the original forecasts that were set for the year. *page 39*

FINDING: Revenue from sales of goods and services for the public non-financial corporations sector for 2012-13 was \$4.9 billion, \$529.6 million below the level anticipated in the 2012-13 budget papers. Information contained in the 2012-13 Budget Update suggests this was largely a result of water price freezes, the rescheduled *Connections Project* and a subdued property market. *page 40*

FINDING: Grants revenue for the public non-financial corporations sector for 2012-13 was \$2.7 billion, which was slightly more than the amount anticipated in the 2012-13 budget papers. The variance was primarily a result of timing adjustments in the *Connections Project*. *page 40*

FINDING: Other items of revenue for the public non-financial corporations sector totalled \$681.9 million. This was \$67.8 million below the amount anticipated in the 2012-13 budget papers. A \$64.4 million more-than-expected dividend from Snowy Hydro Limited was offset by \$133.7 million less than anticipated in 'other revenue' (known as 'Other current revenue' in the budget papers). *page 42*

3.4 Public financial corporations sector

FINDING: Revenue for the public financial corporations sector was \$6.6 billion in 2012-13, which was \$91.7 million (1.4 per cent) below the amount anticipated in the 2012-13 budget papers. *page 42*

3.6 Revenue foregone

FINDING: Concessions and subsidies for 2012-13 totalled \$1.6 billion. This was \$101.2 million more than was anticipated for the year. *page 45*

FINDING: Tax expenditures during 2012-13 totalled \$6.3 billion. This was \$314 million more than anticipated for the year. *page 46*

CHAPTER 4 Debt, Borrowings and Liabilities

4.2 The borrowing and lending process

FINDING: Loans made by the Treasury Corporation of Victoria increased by \$4.3 billion between 2011-12 and 2012-13. *page 49*

4.3 Trends in borrowings, debt and liabilities

FINDING: General government sector net debt increased to \$19.8 billion in 2012-13, \$883.4 million less than expected. The sector's borrowings increased to \$31.3 billion over the same period, \$422.3 million less than the budget estimates. *page 49*

FINDING: Net debt for the public non-financial corporations sector increased from \$9.4 billion to \$14.8 billion in 2012-13. The sector's borrowings increased to \$16.2 billion over the same period. Both results are in line with the original budget estimates and are mainly driven by the recognition of the finance lease liability for the Victorian Desalination Plant. *page 50*

FINDING: General government sector's interest expense increased from \$1,242.6 million in 2011-12 to \$1,775.3 million in 2012-13. The public non-financial corporations sector's interest expense increased over the same period, from \$702.7 million to \$1,001.4 million. *page 50*

4.4

Factors influencing levels of net debt, borrowings and liabilities

FINDING: Four public private partnership projects were commissioned during 2012-13 across the general government sector and the public non-financial corporations sector. The largest contribution to borrowings and, in turn, net debt, related to the Victorian Desalination Plant which added \$4.3 billion.

page 52

FINDING: The present value of the unfunded superannuation liability for the general government sector decreased during 2012-13 by \$7.5 billion to \$25.1 billion, primarily due to the use of a higher discount rate for valuation purposes. In 2012-13, this liability is 36.6 per cent of the sector's total liabilities.

page 53

4.5

Fiscal sustainability of debt and borrowings

FINDING: The general government sector increased its net borrowing position in 2012-13 by \$657.1 million.

page 56

FINDING: Standard and Poor's and Moody's Investors Service have maintained their triple-A credit rating and stable outlook for the State of Victoria after the release of the State's 2012-13 *Financial Report*.

page 57

CHAPTER 5

Output Expenditure and Delivery

5.2

Goods and services provided

FINDING: Output expenditure in the general government sector increased by 2.1 per cent in 2012-13.

page 60

FINDING: Expenditure between 2011-12 and 2012-13 decreased only in the area of 'housing and community amenities', but by less than estimated.

page 62

FINDING: The Government estimated that expenditure would increase in the areas of 'education', 'health' and 'public order and safety' between 2011-12 and 2012-13. Increased expenditure in all these three areas did occur, but by less than estimated.

page 62

FINDING: In two areas of expenditure, 'social security and welfare' and 'transport and communications', there were wide variations between anticipated and actual expenditure, based on their actual outlays in 2011-12 and 2012-13 budgets. page 62

FINDING: The Department of Treasury and Finance states that it is difficult to explain variances between budget estimates and actual results for expenses according to government purpose classifications because of different calculation methodologies. The Department of Treasury and Finance has cited the potential for more comparable disclosures in future. page 63

FINDING: Higher than budgeted output expenditure by \$252.7 million in 2012-13 under the *Higher Education and Skills* output, managed by the Department of Education and Early Childhood Development, reflected a continuing increase in student demand for vocational training. page 64

RECOMMENDATION 2: That the Department of Education and Early Childhood Development review its costing methodology for its *Higher Education and Skills* output to more accurately forecast related student demand. page 64

5.3

Employee expenses

FINDING: Employee expenses for the general government sector in 2012-13 were \$17,788.5 million, \$668.4 million (3.9 per cent) more compared to 2011-12 and \$531.3 million (3.1 per cent) more than the 2012-13 budget estimate. page 66

FINDING: Increased employee expenses in 2012-13 were primarily driven by enterprise bargaining agreements finalised in the financial year, and the recruitment of police and protective services officers. page 67

FINDING: The Department of Treasury and Finance has indicated that the 2012-13 estimates for employee expenses for the general government sector did not include the total cost of voluntary departure packages as the number and likely profile of Voluntary Departure Program recipients was unknown at the time of the 2012-13 Budget. page 68

FINDING: Costs totalling \$127.1 million for voluntary departure packages were incurred in 2012-13 and funded from Advances to the Treasurer before allocation to the relevant departments. page 68

5.4

Public non-financial corporations sector

FINDING: Total expenditure for the public non-financial corporations sector was \$8,550.3 million in 2012-13. This was \$273.0 million higher than the amount in 2011-12, but \$398.6 million less than the amount estimated in the 2012-13 budget papers. *page 71*

FINDING: The increase in operating expenses in the public non-financial corporations sector in 2012-13 was mainly driven by interest expenses and operating expenses associated with the Victorian Desalination Plant. *page 72*

RECOMMENDATION 3: The Department of Treasury and Finance provide a further disaggregation of 'other operating expenses' for the public non-financial corporations sector in the Annual Financial Report and in the budget papers to the same level as is disclosed for the general government sector. *page 72*

5.5

Public financial corporations sector

FINDING: Total expenditure for the public financial corporations sector was \$7,574.0 million in 2012-13. This was \$94.5 million higher than the amount in 2011-12 budget papers, but \$63.6 million less than the amount estimated in the 2012-13 budget papers. *page 73*

RECOMMENDATION 4: The Department of Treasury and Finance provide a further disaggregation of 'other operating expenses' for the public financial corporations sector in the Annual Financial Report and in the budget papers to the same level as is disclosed for the general government sector. *page 73*

CHAPTER 6

Asset Investment

6.2

What was spent on asset investment

FINDING: In 2012-13, the five year average of net infrastructure investment was 1.7 per cent of gross state product. This was above the Government's medium-term fiscal strategy target of 1.3 per cent. *page 77*

FINDING: The aggregate investment in assets by the general government sector in 2012-13 exceeded depreciation. This position indicates the level of investment overall is sufficient to maintain existing assets and provide for new assets. page 78

FINDING: Following further budget allocations, funds provided for planning purposes now total \$27.0 million for the *East West Link* project and \$89.7 million for the *Melbourne Metro* project. page 79

FINDING: The inclusion within budget papers of the aggregate estimated expenditure for minor asset projects managed by departments is a useful initiative. Extension of this information in future years to also identify aggregate total estimated investment for such projects would further enhance the presentation of budgeted asset investments. page 80

RECOMMENDATION 5: To improve understanding of planned investment in departmental minor asset projects, and align disclosures with the public non-financial corporations sector, the Department of Treasury and Finance should also include within the budget papers the aggregate total estimated investment for such projects. page 80

FINDING: In 2012-13, asset investment by cash flows from investments in financial assets for policy purposes – cash outflows totalled \$1.8 billion, principally involving the *Regional Rail Link*. page 81

FINDING: As was the case in respect of the Committee's 2011-12 outcomes inquiry, the Department of Justice determined not to provide expenditure on commissioned public private partnerships projects in 2012-13 on the ground that they are '*... commercial in confidence*'. page 82

FINDING: Four public private partnership projects were commissioned in 2012-13. Revised arrangements for the *Ararat Prison* project (now named *Hopkins Correctional Centre*) include extended project timelines with the latest expected completion date in early 2015. page 83

6.3

Asset provision by purpose

FINDING: The largest general government asset investment by purpose in 2012-13 occurred in the 'transport and communications' classification, accounting for \$1.7 billion in investment. This investment, together with 'health' and 'education' constituted 77.9 per cent of total general government asset investment. page 84

FINDING: Drawing on information provided by the Department of Treasury and Finance, budgeted asset investment data by government purpose classification presented in annual budget papers is not directly comparable with actual expenditure reported in the Annual Financial Report. *page 84*

RECOMMENDATION 6: The Department of Treasury and Finance explore avenues to bring about greater comparability between budget and actual asset investment by government purpose classification published in annual budget papers and the Annual Financial Report. *page 84*

6.4

Changes to projects during the year

FINDING: The financial impact in 2012-13 of examined projects where expenditure was significantly less than budget was \$840.0 million. *page 86*

FINDING: The financial impact in 2012-13 of examined projects where expenditure exceeded budget by more than 10 per cent was \$255.0 million. *page 86*

FINDING: The financial impact from projects with significant increases in the total estimated expenditure between the 2012-13 and 2013-14 budget papers was \$215.3 million, substantially lower than 2011-12 and the lowest level since 2009-10. *page 88*

FINDING: The financial impact from projects with significant decreases in the total estimated expenditure between the 2012-13 and 2013-14 budget papers was \$161.8 million, the largest level of decreases since 2009-10. *page 88*

FINDING: Significant increases to expected completion dates of projects in 2012-13 occurred on 45.9 per cent of projects examined. This is a large increase from 2011-12. The impact in 2012-13 was an average increase of 15.6 months. *page 90*

FINDING: Significant decreases to expected completion dates of projects in 2012-13 occurred on 5.6 per cent of projects examined. The impact in 2012-13 on these projects was an average decrease of 15.2 months. *page 90*

FINDING: A major reason advised by the Department of Transport, Planning and Local Infrastructure for significant delays in completing projects in 2012-13 was additional time required for contract defect periods. *page 91*

FINDING: In identifying the projected finance lease charges for public private partnerships (PPPs) in 2012-13, the budget papers stated that the estimate related to one project, the *Peninsula Link*. An additional three PPPs were commissioned during the year. *page 92*

6.5 High-Value, High-Risk projects

FINDING: A number of projects greater than \$100 million that have not been designated High-Value, High-Risk because they contain smaller components had significant changes to the total estimated investment, actual expenditure for the year, or expected completion date. *page 93*

FINDING: Past findings of the Ombudsman and the Auditor-General highlight that Information and Communication Technology (ICT) projects are inherently risky and more susceptible to exceeding budgeted cost and timelines. The Government's lifecycle High-Value, High-Risk guidelines recognise ICT projects may warrant extra rigour and attention. *page 95*

6.6 Major Projects Victoria projects

FINDING: New performance measures established for Major Projects Victoria increase the level of detail and transparency relating to contracted scope, cost and time. These changes should strengthen the entity's performance measurement regime and enhance external assessments of its periodic performance. *page 97*

FINDING: Based on information provided to the Committee, the proportion of Major Projects Victoria (MPV) projects with recorded expenditure greater than 10 per cent above the budget estimates has been greater than the general government sector projects since 2010-11. The proportion of MPV projects with recorded expenditure below the budget estimate by more than 10 per cent was significantly lower than general government projects in 2012-13. *page 98*

FINDING: In 2012-13, a higher proportion of Major Projects Victoria projects had no significant change to expected completion dates compared to large general government sector projects. *page 99*

CHAPTER 7

Reporting Practices for Key Asset Projects

7.2

The diversity of public sector investment programs

FINDING: The financial magnitude of annual asset investments in the public sector coupled with the breadth of diversity of individual asset projects reinforce the importance of effective reporting by agencies to Parliament on progressive and final outcomes achieved for such projects. *page 103*

7.3

Availability of wide-ranging central guidance to public sector agencies to assist their management of asset projects

FINDING: Adherence to cost budgets and forecast timeframes are fundamental measures of an agency's performance in managing asset projects. As recognised in the Government's lifecycle guidance, the management focus within agencies should extend beyond these measures to also encompass attainment of value for money outcomes and expected community benefits. *page 105*

FINDING: The Government's extensive guidance material supporting internal management and reporting of asset projects are aimed at optimising outcomes for asset investments. This aim is complementary to the interests of Parliament and the community as key external stakeholders. *page 106*

FINDING: As a practice, there should be a strong accountability link between outcomes from asset management reported on internally by agencies to Government and information reported externally by agencies to Parliament and the community. *page 106*

7.4

Current reporting practices for asset investments

FINDING: The budget papers present extensive information on the estimated cost and completion dates for all new and existing capital projects other than public private partnerships (PPPs). They also include some descriptive narrative on the likely number and status of PPPs during the budget year, with more detail on each PPP available on the Department of Treasury and Finance's website. *page 107*

FINDING: The Annual Financial Report provides high-level global commentary on asset investments across the public sector. *page 109*

FINDING: For key stakeholders such as Parliament and the community, the prime accountability documents prepared by agencies, and particularly their annual reports, are the key sources of information on agencies' performance in managing asset projects. *page 109*

FINDING: The external asset reporting practices of several public sector agencies analysed by the Committee vary between agencies and do not focus specifically on performance against established milestones applicable to each stage of a project's lifecycle. *page 111*

7.5

Scope for further strengthening asset reporting practices across the public sector

FINDING: Greater uniformity in public sector asset reporting would result from the formulation of minimum reporting standards, applicable to all agencies. Such standards could extend beyond performance against cost and time budgets to also encompass key milestones formulated for the entire lifecycle of projects, including the progressive realisation of community benefits for completed projects. *page 112*

RECOMMENDATION 7: The Department of Treasury and Finance formulate minimum external reporting standards for major asset projects which are applicable to all public sector agencies. Such standards should encompass key milestones, including those of a works nature, established by agencies for the full lifecycle of projects. They should be designed in a manner which enables Parliament and the community to exercise judgement on the overall effectiveness of agencies in managing asset projects and achieving optimal outcomes. *page 113*

RECOMMENDATION 8: The framework for standardised asset reporting in the Victorian public sector be separately tailored to address the specific features of public private partnerships. These features include direct involvement by the private sector in major partnership functions and the associated responsibilities of managing agencies for achieving optimal project outcomes. *page 113*

RECOMMENDATION 9: Where responsibility for the development and delivery of a project and/or related projects is spread across several agencies, the Department of Treasury and Finance should nominate a lead agency to include a consolidated report in its annual report on the totality of the project's performance over the reporting period, including both capital and operational components. *page 113*

CHAPTER 8

The Government's Responses to Previous Recommendations of the Committee

8.2

Responses to recommendations

FINDING: The Committee made 18 recommendations in its *Report on the 2011-12 Financial and Performance Outcomes*. The Government supported 15 of these recommendations (83 per cent), a position welcomed by the Committee. page 116

8.3

Implementation of recommendations

FINDING: Of the 15 recommendations made by the Committee in the *Report on the 2011-12 Financial and Performance Outcomes* that were supported by the Government, four have already been fully or partially implemented. The Committee is not yet able to assess the status implementation action taken under the remaining 11 recommendations. page 118

FINDING: At times, responses supporting the Committee's recommendations make reference to proposed review action as a component of the intended implementation process. Some responses of this nature do not identify specific details of the cited review action and associated timelines. The Parliament's consideration of such responses would be assisted if they incorporated, to the extent possible, more specific detail. page 118

RECOMMENDATION 10: Government responses supporting the Committee's recommendations that cite proposed review action include, to the extent possible, specific details of the planned reviews and their associated timelines. This approach would assist the Parliament's consideration of the responses. page 118

8.4

Implementation of recommendations from the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*

FINDING: Further analysis by the Committee has identified that of the 46 recommendations made by the Committee in its *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, 23 have been fully implemented and 15 have been partially implemented. page 120

FINDING: The Government indicated that two recommendations from the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes* were under review. One has since been implemented. For the remaining recommendation, it is not possible to determine the status of its implementation until the release of the *State of the Public Sector Report 2012-13*. page 121

CHAPTER 1

INTRODUCTION

1.1

Background

This report presents the Committee's findings from the second component of its Inquiry into the 2012-13 Financial and Performance Outcomes. The Committee presented the results of the initial segment of the inquiry to Parliament in its March 2014 report on Victoria's performance measurement and reporting system.¹

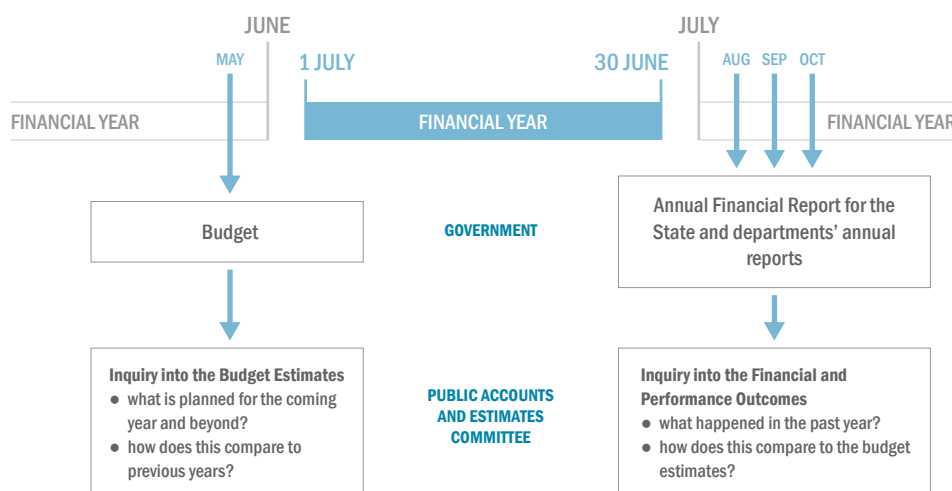
The principal aims of this second component are to:

- » understand what was achieved in 2012-13 and how that compared to expectations;
- » determine if there is sufficient transparency and adequate disclosure of what occurred; and
- » identify potential areas for improvement.

This inquiry forms part of the Committee's involvement in Victoria's regular cycle of accountability that begins with the Budget before the start of each financial year and ends with this report (see Figure 1.1).

Figure 1.1

Accountability cycle



Source: Public Accounts and Estimates Committee

1.2

Structure and content of the report

The report examines financial and performance outcomes across the public sector. It includes relevant commentary on the three sectors of government in Victoria, the general government sector, the public non-financial corporations sector and the public financial corporations sector.

¹ Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System*, March 2014

Chapter 2 provides an overview of the State's finances in 2012-13. It compares the finances to estimates published in the budget papers. Because of its overview nature, it includes references to many of the issues discussed in some detail in the later chapters.

Chapters 3 to 6 address four key components of the Government's finances:

- » revenue;
- » borrowings, debt and liabilities;
- » output expenditure and delivery; and
- » asset investment (mainly infrastructure projects).

For each of these chapters, the Committee analyses what occurred in 2012-13 across the three sectors of government and how that compares to what was planned in the 2012-13 Budget. The analysis includes references to any changes to estimates announced in the Government's 2012-13 Budget Update published in December 2012.

Chapter 7 looks specifically at the current reporting practices for key asset projects across the public sector. It identifies the extensive guidance material available to agencies for their internal decision-making and management of asset investments. The chapter then seeks to determine whether this advanced internal framework can be drawn on to bring about greater consistency in external reporting on asset projects.

Chapter 8 provides an update on how the Government responded to recommendations of the Committee made in its two latest outcomes reports, namely its April 2012 *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes* and May 2013 *Report on the 2011-12 Financial and Performance Outcomes*.

1.3

Scope of the report

The report focuses on all three sectors of government in Victoria:

- » the general government sector – all government departments (funded through the annual State Budget) and several other agencies which provide services either with no charge to users or significantly below their costs of delivery;
- » the public non-financial corporations sector – agencies, such as water bodies, which provide goods or services with charges that recover most of their costs; and
- » the public financial corporations sector – agencies, such as the Transport Accident Commission, State Trustees Limited and Treasury Corporation of Victoria, which provide financial services to the Government and the wider community.

For all sectors, the report compares actual performance by agencies against revenue and cost budgets, based on published material and responses received from agencies to the Committee's questionnaires for the inquiry. It does not, however, specifically examine the performance of agencies in 2012-13 against all established measures and targets, such as the full suite of output measures and targets, including those of a qualitative nature, established by departments under Victoria's output management framework. It also does not evaluate the appropriateness of individual

measures and targets. This aspect of 2012-13 financial and performance outcomes within the public sector is analysed in detail in the Committee's March 2014 report on Victoria's performance measurement and reporting system.²

The Committee's recent report on performance measurement and reporting also examines the quality of disclosure in the annual reports of departments and water bodies.³ As signalled in the Committee's previous outcomes report, this element of the Committee's annual reviews of outcomes was scheduled to resume in 2012-13, following a pause in 2011-12, to give sufficient time for its past disclosure recommendations to be implemented by relevant agencies.⁴

1.4

The inquiry process

In undertaking this inquiry, the Committee has primarily drawn on the following sources of information:

- » the *2012-13 Financial Report* for the State;
- » the 2012-13 annual reports of departments and other agencies across the public sector;
- » a general questionnaire on a range of topics determined as common to all agencies; and
- » an entity-specific questionnaire tailored to the circumstances of individual agencies.

Appendices A1.1 and A1.2 include the departments and agencies which received questionnaires from the Committee.

Responses to the questionnaires have been published on the Committee's website (www.parliament.vic.gov.au/paec).

1.5

Acknowledgement

The Committee is aware of the significant time and effort allocated by departments and agencies across the public sector to the preparation of responses to its questionnaires. The written responses from agencies are a major input to the Committee's research program for this inquiry.

The Committee is grateful for the time and effort directed by agency staff and ministers to assisting its inquiry.

1.6

Cost

The cost of this report was approximately \$88,700.

² *ibid.*, and particularly Chapters 4 and 5

³ *ibid.*, Chapter 7

⁴ Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes*, May 2013, p.2

2.1

Introduction

As part of the budget process, the Government produces estimates of the public sector's finances for the year ahead. These estimates factor in both the Government's plans and expected external factors (such as economic conditions and demographic changes).

The budget papers provide details of these estimates through estimated financial statements, a description of the key assumptions underlying the estimates and details of the Government's economic and fiscal strategies.

This chapter compares the estimates to the actual results for 2012-13. The chapter focuses on the following questions:

- » What were the financial outcomes of the Victorian public sector in 2012-13? How did the actual results compare to budget estimates? (Section 2.2)
- » What happened in each of the three sectors making up the public sector? (Section 2.3)
- » What was the impact of the economic environment? (Section 2.4)
- » What actions did the Government take after the Budget was released that influenced the results? (Section 2.5)
- » What other factors influenced the results? (Section 2.6)
- » How did the financial outcomes compare to the Government's targets in its economic and fiscal strategies? (Section 2.7)

2.2

The public sector's finances in 2012-13

The Victorian public sector includes three distinct sectors:

- » the general government sector, which consists of government departments, the Parliament, and government agencies which do not charge for the services they provide (or charge significantly less than their costs);
- » the public non-financial corporations (PNFC) sector, which is made up of government-owned agencies that charge for the services they provide to cover most of their costs (such as water authorities); and
- » the public financial corporations (PFC) sector, which provides financial services, including loans and insurance (such as the Treasury Corporation of Victoria and the Transport Accident Commission).

The general government sector is the largest sector, accounting for the majority of the public sector's revenue and expenditure. However, large amounts of money flow between the sectors as well. In particular:

- » the general government sector provides grants to the PNFC sector and funds some of the PNFC sector's asset investment;
- » the PNFC and PFC sectors provide dividends to the general government sector;

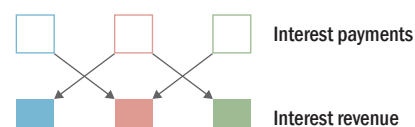
- » some general government sector and PNFC entities lend money to the PFC sector;
- » other general government sector and PNFC entities borrow money from the PFC sector; and
- » entities from all sectors purchase services from entities in other sectors.

Figure 2.1 shows some of these interactions.

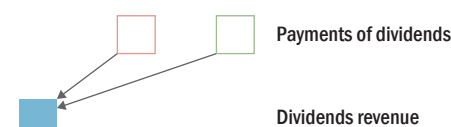
Figure 2.1

Payments between sectors

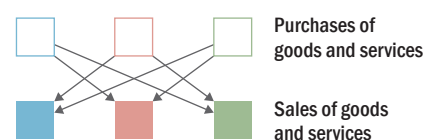
INTEREST



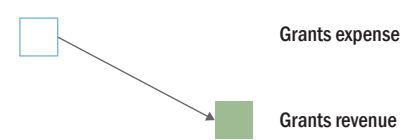
DIVIDENDS



GOODS AND SERVICES



GRANTS



General government sector

Public financial corporations sector

Public non-financial corporations sector

Source: Public Accounts and Estimates Committee

This section of the report looks at the public sector as a whole. Each of the individual sectors is examined in Section 2.3.

2.2.1

Key elements

The key elements of the public sector's finances in 2012-13 are illustrated in Figure 2.2. The figure also demonstrates the relationship between these elements, indicating how money flows from one element to another. The figure shows the actual results for 2012-13.

The three largest sources of the public sector's revenue in 2012-13 were:

- » **grants from the Commonwealth Government**, which totalled \$21.8 billion;⁵
- » **taxation revenue**, which accounted for \$15.2 billion;⁶ and
- » **sales of goods and services**, which provided \$12.9 billion.⁷

Smaller amounts also came from **dividends and income tax equivalent and rate equivalent revenue** and **interest revenue** from entities outside the Victorian public sector.

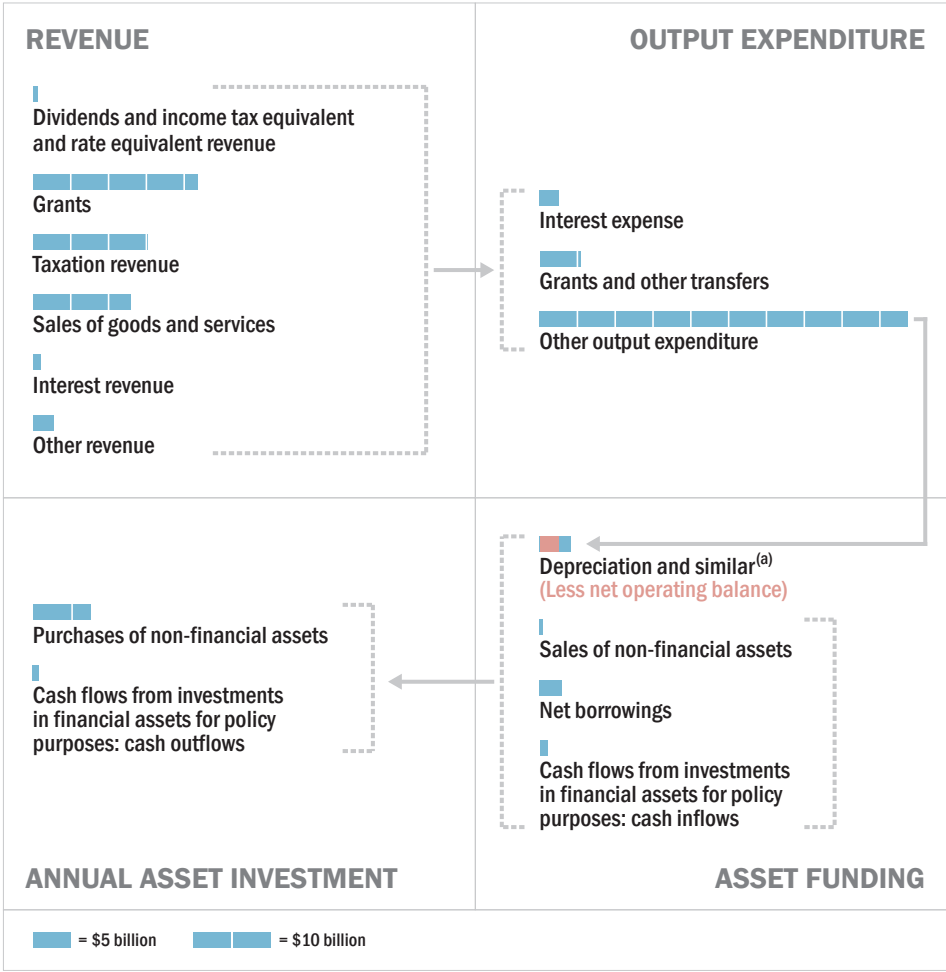
Revenue is discussed in Chapter 3 of this report.

⁵ Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.25

⁶ *ibid.*

⁷ *ibid.*

Figure 2.2 Key elements of the public sector’s finances, 2012-13



(a) includes non-cash movements in liabilities
Source: Public Accounts and Estimates Committee

Output expenditure is mostly the cost incurred by the public sector in delivering goods and services. **Interest expense** is included in output expenditure (\$2.5 billion in 2012-13).⁸ In addition, the public sector provided \$5.4 billion of **grants and other transfers** to bodies outside the public sector (primarily the private sector, not-for-profit sector and local government).⁹

Output expenditure is discussed in Chapter 5 of this report.

Output expenditure is mostly funded by revenue. However, in 2012-13, the amount of output expenditure for the public sector exceeded the amount of revenue by \$2.5 billion.¹⁰ Output expenditure also includes an amount for **depreciation** (\$4.1 billion in 2012-13).¹¹ Depreciation represents the amount of money that would be required to keep the public sector’s assets in the same condition as they were in the previous year. This amount is included in the operating expenses to provide an accurate picture of the annual cost of delivering goods and services but does not reflect actual cash expenditure in the year. The cash

8 ibid.
9 ibid.
10 ibid.
11 ibid.

equivalent of this amount is available, along with other sources, to fund annual asset investment. Other sources of funding for the public sector's asset investment in 2012-13 include:

- » **net borrowings** (\$3.0 billion);¹²
- » **cash flows from investments in financial assets for policy purposes: cash inflows** (\$1.1 billion);¹³ and
- » proceeds from **sales of non-financial assets** (\$0.4 billion).¹⁴

Borrowings are discussed further in Chapter 4 of this report.

Together, these sources fund the public sector's asset investment program. This includes **purchases of non-financial assets** (\$7.6 billion¹⁵), which covers projects directly delivered by the public sector (almost entirely the general government sector and PNFC sector). These sources also fund **investments in financial assets for policy purposes**.

In addition to these amounts, the Government also purchases assets through **public private partnerships** (PPPs). Departments identified \$796 million of expenditure in 2012-13 for PPPs.¹⁶ This is drawn both from output expenditure and other sources, though the Committee notes that not all projects are included in this figure (see further Section 6.2.3).

2.2.2

Budget estimates and actual results

Figure 2.3 compares the initial budget estimates and actual results for these key elements. Additional details can be seen in Appendix A2.1.

Revenue

The public sector received \$54,203.0 million in revenue, \$588.7 million (1.1 per cent) less than the budget estimate.¹⁷ As can be seen in Figure 2.3, the variance was primarily driven by receiving less than expected from:

- » sales of goods and services;
- » grants (primarily from the Commonwealth); and
- » taxation revenue.

The lower-than-expected revenue from sales of goods and services was mostly driven by the PNFC sector, which received \$529.6 million less than estimated.¹⁸ The reduced grants revenue and taxation revenue are discussed in Section 2.4 of this report.

¹² *ibid.*, p.28

¹³ *ibid.*

¹⁴ *ibid.*

¹⁵ *ibid.*

¹⁶ Departmental responses to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire

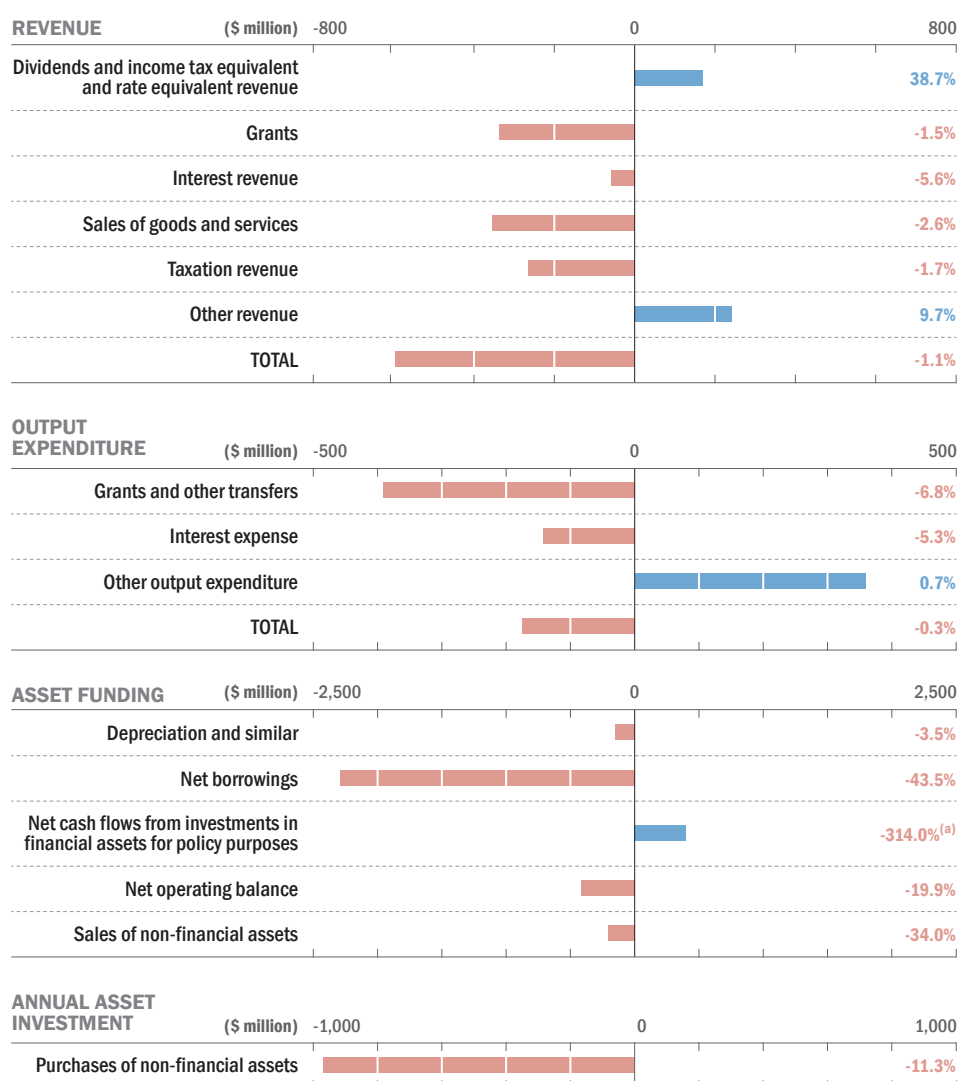
¹⁷ This compares to \$54,457.8 million for 2011-12, a decrease of \$254.8 million (0.5 per cent) (Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.25; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.65).

¹⁸ Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.58; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.42

Figure 2.3

More details about revenue can be found in Chapter 3 of this report.

Variance between budget estimates and actual results for key elements of the finances for the public sector as a whole, 2012-13



(a) This was originally expected to be a net outflow of \$122.7 million, but the actual result was a net inflow of \$262.6 million.

Sources: Department of Treasury and Finance, 2012-13 Financial Report, October 2013, pp.59, 63; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, pp.65, 68-9

Output expenditure

Overall, the output expenditure of the public sector varied from the budget estimate by only \$175.2 million (0.3 per cent).¹⁹ For some line items within output expenditure, there were larger variances, which are discussed further in Chapter 5. The Annual Financial Report indicates that the variance from the budget estimates for 'grants and other transfers' was 'driven by reclassification of payments to registered training organisations from grants to other operating expenses'.²⁰

19 Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.59; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.65

20 Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.118

Net operating balance

The net operating balance was \$-2.5 billion, compared to a budget estimate of \$-2.1 billion.²¹ This was a result of the revenue varying from the budget estimate by more than expenditure did (\$588.7 million less in revenue compared to \$175.2 million less in expenditure).²²

Asset funding

All sources of asset funding were lower than expected. The amount of cash equivalent to depreciation was lower than estimated, with most of the variance occurring in the general government sector. The Annual Financial Report states that this was a result of '*re-phasing of capital expenditure and lower than expected asset revaluations*'.²³ In addition, less of the cash equivalent to these amounts was available than had been expected, as a result of the net operating balance being lower than expected. Sales of non-financial assets also produced less cash than initially estimated.²⁴

In some circumstances, the reduced funding from these sources might be compensated by larger net borrowings. In 2012-13, however, the amount of net borrowings was \$2.3 billion (43.5 per cent) less than the budget estimate.

This was primarily possible because purchases of non-financial assets was \$7.6 billion, which was \$969.9 million less than the budget estimate (see Appendix A2.1), meaning that less asset funding was required than had been anticipated in the Budget. In addition, the Government also received inflows of cash from other investing activities, whereas the budget estimates had expected losses.²⁵ The additional cash from these sources also reduced the need to borrow.

Annual asset investment

Most of the public sector's direct asset investment is undertaken by the general government sector and PNFC sector.²⁶ The general government sector spent \$603.6 million more than originally budgeted and the PNFC sector spent \$1,286.2 million less than originally budgeted.²⁷ This is partly due to both sectors spending less than budgeted on a number of projects, and was mitigated by a reclassification of expenditure budgeted at \$936.8 million from the PNFC sector to the general government sector.²⁸

Asset investment, including this reclassification, is discussed further in Chapter 6 of this report.

21 *ibid.*, p.25; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.65

22 *ibid.*

23 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.118

24 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.28; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.68

25 *ibid.*

26 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, pp.62-3

27 *ibid.*, p.62; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.8, 44

28 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.121; Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes Entity-Specific Questionnaire, received 4 February 2014, p.24

FINDING: Purchases of non-financial assets by the public sector totalled \$7.6 billion in 2012-13, \$969.9 million less than budgeted.

2.2.3

Key financial indicators

Indicators of revenue and expenditure

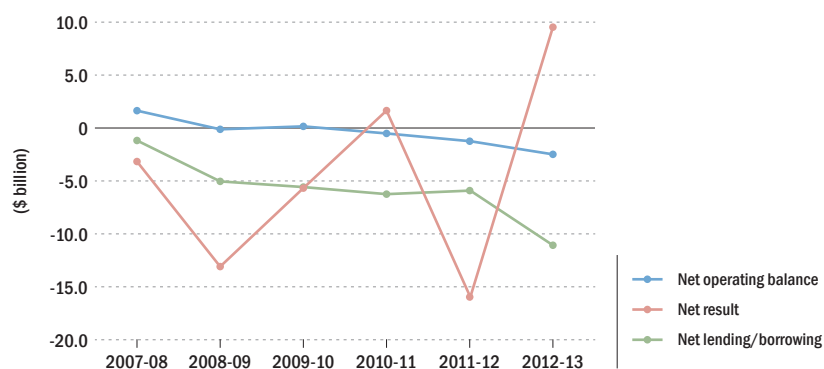
The Committee examined three indicators which compare the amount of expenditure in 2012-13 to the amount of revenue:

- » the net operating balance, which measures whether or not the amount of revenue is greater than the output expenditure;
- » the net result, which builds on the net operating balance to also include 'other economic flows' (mostly changes in the value of financial assets and liabilities); and
- » the net lending/borrowing indicator, which builds on the net operating balance with some expenditure on asset investment and some sources of asset funding.

Figure 2.4 presents these three indicators for 2012-13 and the prior five years.

Figure 2.4

Indicators of revenue and expenditure for the public sector as a whole, 2007-08 to 2012-13



Source: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement - Whole of State' data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Financial-statements>, accessed 11 December 2013

The net operating balance of \$-2,486.8 million was lower than the 2011-12 actual of \$-1,247.6 million and lower than the budget estimate of \$-2,073.4 million.²⁹ The change between 2011-12 and 2012-13 is a result of expenditure increasing by \$984.5 million (1.8 per cent), while revenue decreased by \$254.8 million (0.5 per cent).³⁰ The factors impacting on revenue and expenditure are discussed further in Chapters 3 and 5.

²⁹ Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.25; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.65

³⁰ Committee calculations based on Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.25

The 2012-13 budget papers state that the net operating balance for the public sector as a whole:³¹

... does not provide the most meaningful picture of the financial performance of the PFC sector. The nature of this sector's core business includes investment activities. Based on current accounting standards, a significant part of the investment income supporting expenditure is presented below the line as other economic flows and therefore forms part of the net result. Accordingly, for this sector, the net result is the more meaningful measure.

The net result incorporates the net operating balance and also includes a range of accounting adjustments that primarily reflect changes in value of certain assets and liabilities.

The net result for the public sector as a whole in 2012-13 was \$9.5 billion, compared to the net operating balance of \$-2.5 billion.³² The PFC sector accounted for \$4.2 billion of the difference between these figures (compared to a budget estimate of \$1.3 billion). This was mostly achieved through gains on the value of financial assets and liabilities.³³ However, the largest contributor to the result is the change in the value of the public sector's defined benefits superannuation liability, for which the net result includes a gain of \$7.4 billion (compared to a budget estimate of \$-4.2 million).³⁴

The superannuation liability is discussed further in Section 4.4.2 of this report. As noted by the Government, the gains in the superannuation liability are primarily due to accounting treatments resulting from movements in bond rates and 'do not affect the amount of cash required to fund the superannuation liability'.³⁵

As a result of changes in the financial market (especially bond rates), the net result is highly variable from one year to another. As noted by the Auditor-General in relation to the 2012-13 net result, 'there is no discernible trend in the state's net result for the past five financial years'.³⁶

The net lending/borrowing indicator follows a similar trend to the net operating balance. It sharply declines in 2012-13 from a net borrowing position of \$5.9 billion in 2011-12 to \$11.1 billion in 2012-13 (also net borrowing).³⁷ This is primarily a result of:

- » the \$1.2 billion decrease in the net operating balance; and
- » the Victorian Desalination Plant, which was commissioned in 2012-13, causing it to have a one-off \$4.3 billion impact on this indicator (see further discussion in Section 4.3.1 of this report).³⁸

31 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.62

32 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.25

33 *ibid.*, pp.17, 59; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.57

34 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, pp.17, 59; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.65

35 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.17

36 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2012-13*, November 2013, p.11

37 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.26

38 *ibid.*, p.18

The net lending/borrowing indicator is discussed further in Section 4.5.2 of this report.

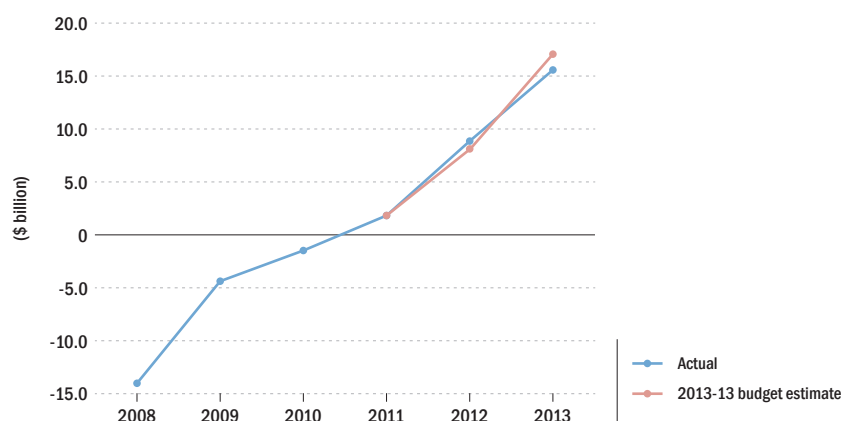
FINDING: The net operating balance decreased and the net borrowing level increased in 2012-13, reflecting the fact that expenditure exceeded revenue by a larger amount in 2012-13 than in 2011-12. However, the net result for the public sector as a whole was positive, at \$9.5 billion. This was due to gains in the value of financial assets and liabilities in the public financial corporations sector and a revaluation of the defined benefits superannuation liability (mostly due to changes in bond rates).

Net debt

Net debt is a measure of the difference between the amount of money that the public sector owes and selected financial assets (mostly cash or assets that could easily be converted into cash). During 2012-13, the public sector's net debt rose from \$8.9 billion to \$15.6 billion.³⁹ Figure 2.5 shows how the net debt levels have changed over the last six years. A negative figure for net debt indicates that the value of financial assets exceeds the value of borrowings. A positive figure indicates the reverse.

Figure 2.5

Net debt for the public sector as a whole, 30 June, 2008 to 2013



Source: Department of Treasury and Finance, 'Consolidated balance sheet as at 30 June - State of Victoria' data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Financial-statements>, accessed 12 December 2013; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.67

Net debt increased in both the general government sector and PNFC sector. In both cases, it was through a combination of net borrowings and the recognition of public private partnerships. The liabilities for payments over the lifetime of public private partnerships (in net present value) is added to net debt when a public private partnership is commissioned (that is, when it starts operation). The commissioning of the Victorian Desalination Plant accounted for \$4.3 billion of the increase in the PNFC sector in 2012-13.⁴⁰ The changes to net debt are discussed further in Section 4.3 of this report.

³⁹ *ibid.*, p.27

⁴⁰ *ibid.*, p.18

As Figure 2.5 also shows, the net debt was higher at the start of the year than estimated in the 2012-13 budget papers, but lower at the end of the year. This is a result of reduced borrowings compared to the estimate (see Section 2.2.2 of this report), although this has been partially offset by reduced financial assets compared to the estimate.

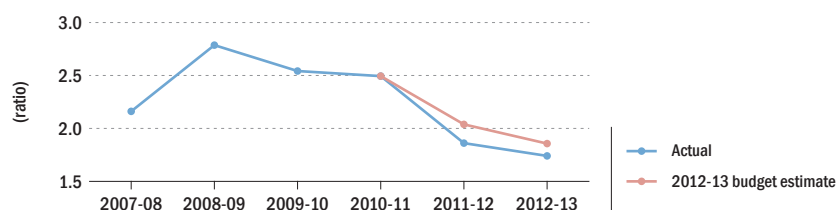
FINDING: Net debt for the public sector increased from \$8.9 billion to \$15.6 billion during 2012-13. This was driven by net borrowings and the recognition of the liabilities for public private partnership projects.

Investment and depreciation

The ratio of net direct investment⁴¹ to depreciation compares the rate at which assets are acquired to the rate at which assets are being used up. A result above 1.0 means that the public sector is investing at a faster rate than is required to maintain its existing level of assets. A result below 1.0 means that the asset base is depreciating faster than it is being replaced. Figure 2.6 shows this ratio for the last six years.

Figure 2.6

Investment in non-financial assets to depreciation, public sector as a whole, 2007-08 to 2012-13



Sources: Committee calculations based on Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement - Whole of State' data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Financial-statements>, accessed 11 December 2013; Department of Treasury and Finance, 'Consolidated Cash Flow Statement - Whole of State' data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Financial-statements>, accessed 11 December 2013; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, pp.65, 68

As can be seen from Figure 2.6, the ratio remains well above 1.0. There has been a decline in recent years following a peak in 2008-09.

The actual results for both 2011-12 and 2012-13 are less than had been expected in the 2012-13 budget papers. In both cases, this is primarily a result of the expenditure on asset investment within the financial year being less than anticipated.

Asset investment is discussed further in Chapter 6.

FINDING: The ratio of net direct investment (net cash flows from investments in non-financial assets) to depreciation remains above 1.0, meaning that new infrastructure is being built faster than the existing infrastructure is being used up.

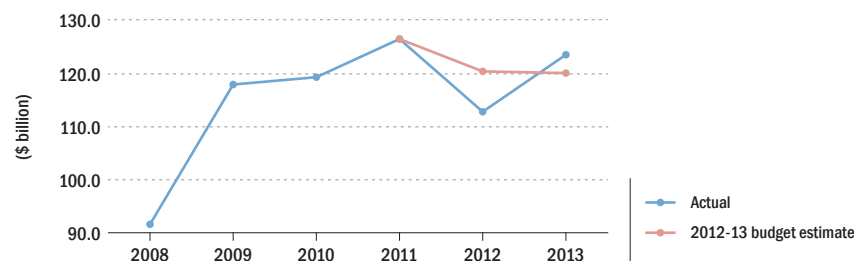
⁴¹ Known in the Annual Financial Report as 'net cash flows from investments in non-financial assets', that is, purchases of non-financial assets less proceeds from sales of non-financial assets.

Net worth

Net worth is a measure of the total value of the public sector's assets, less its liabilities. The net worth for the last six years can be seen in Figure 2.7.

Figure 2.7

Net worth of the public sector, 30 June, 2008 to 2013



Department of Treasury and Finance, 'Consolidated balance sheet as at 30 June - State of Victoria' data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Financial-statements>, accessed 12 December 2013; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.67

A number of factors have influenced the changing value of the net worth, including steady growth in the public sector's asset base, offset by steady growth in borrowings.⁴² Overall, it has grown during 2012-13 (reaching \$123.6 billion), although it remains below the 2010-11 level.

A major factor causing the variability in the net worth over the last two years has been the value of the defined benefits superannuation liability.⁴³ Due to fluctuations in the financial markets, the value of this liability recognised in the financial statements has changed significantly from one year to another. The superannuation liability was \$22.8 billion in June 2011, rising to \$32.8 billion in June 2012 and then reducing to \$25.2 billion in June 2013.⁴⁴ This is discussed further in Section 4.4.2.

Net worth was expected to remain almost unchanged during 2012-13 in the original budget estimates. However, the starting point for 2012-13 was lower than anticipated and the ending point higher than anticipated. Variations in the value of a wide range of components contributed to this, including:⁴⁵

- » financial assets (such as cash and amounts owed to the public sector);
- » non-financial assets (including land, buildings, infrastructure and roads); and
- » liabilities (especially borrowings and the superannuation liability).

FINDING: The public sector's net worth grew to \$123.6 billion over 2012-13. This is an increase from the June 2012 net worth, though it remains below the June 2011 level. A variety of factors have influenced the changing value of the net worth, including significant shifts in the recognised value of the public sector's superannuation liability due to changes in the financial markets.

⁴² Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.27

⁴³ Department of Treasury and Finance, 2011-12 Financial Report, October 2012, p.11; Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.4

⁴⁴ Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.27

⁴⁵ Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.67; Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.27

2.3

Components of the public sector

As discussed above, the public sector is divided into three components – the general government sector, PNFC sector and PFC sector. Section 2.2 notes that there are a number of payments that move from one sector to another. These will appear in the expenditure for one sector and the revenue for another, but will be eliminated when the public sector is considered as a whole. This means that the total of any component in the three different sectors may not equal the equivalent component for the public sector as a whole.

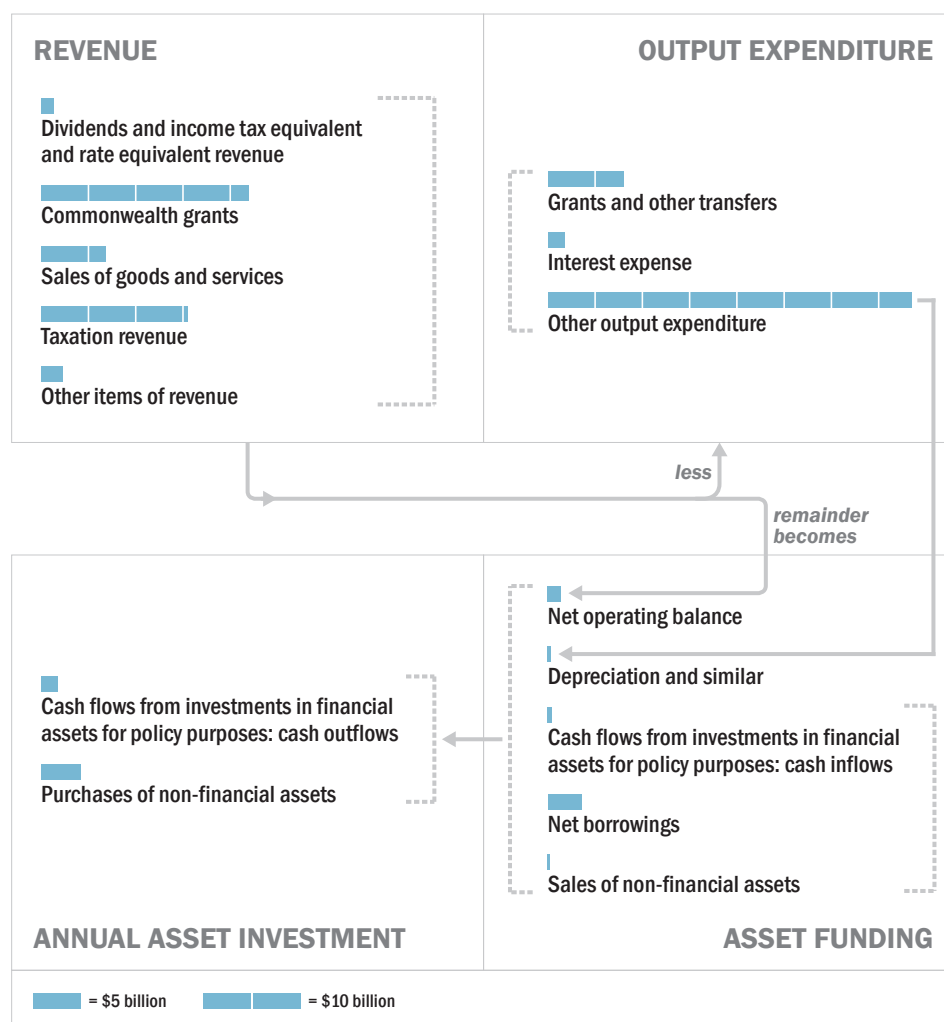
2.3.1

General government sector

The key elements of the general government sector's finances are set out in Figure 2.8. Further details of these amounts can be found in Appendix A2.2.

Figure 2.8

Key elements of the general government sector's finances, 2012-13



Source: Public Accounts and Estimates Committee

The majority of the general government sector's revenue comes from Commonwealth grants and taxation revenue. Most of the revenue was spent delivering goods and services. Just over \$8.0 billion was provided in grants, mostly

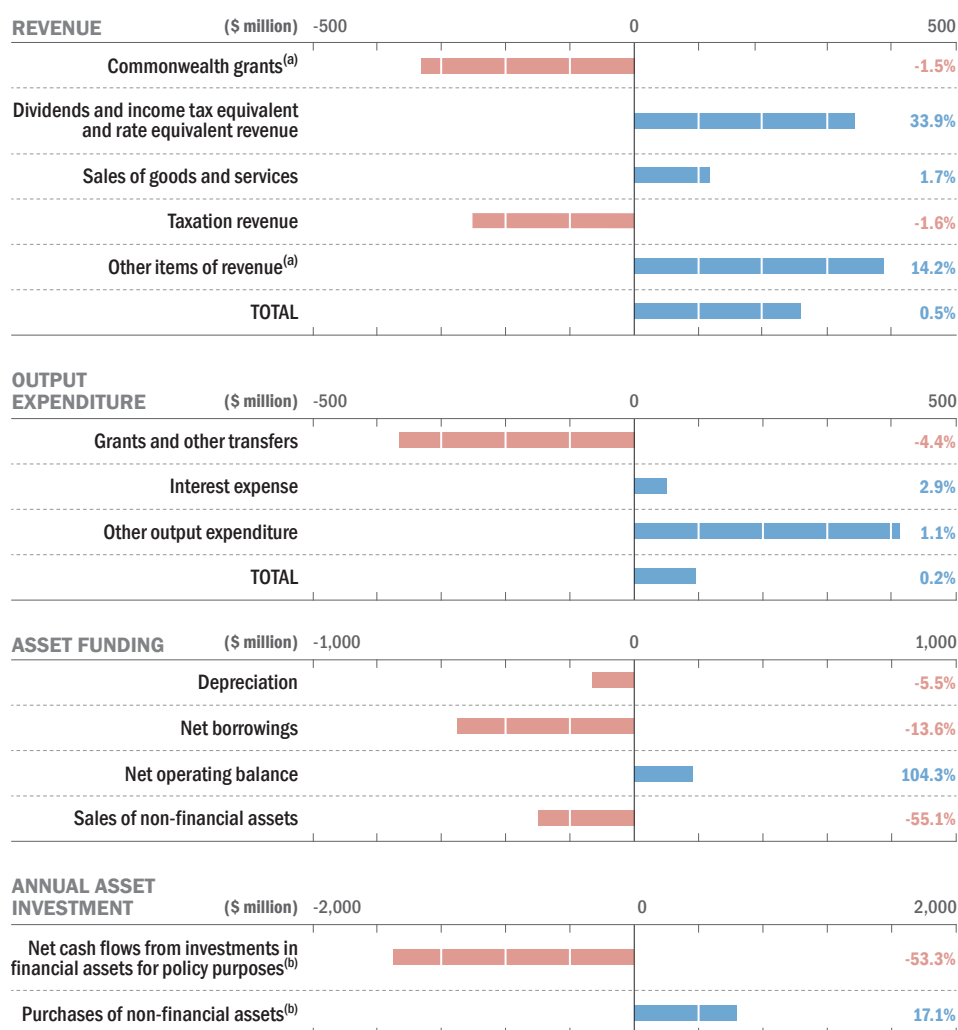
to the private and not-for-profit sector (50.1 per cent), other parts of the public sector (33.1 per cent) and local government (13.6 per cent).⁴⁶

Approximately \$2.6 billion from revenue was available to fund asset investment, through depreciation and the net operating balance.⁴⁷ The main source of asset funding in 2012-13 was net borrowings (\$3.6 billion).⁴⁸ The general government sector spent \$4.1 billion on purchases of non-financial assets, with an additional \$1.8 billion provided to other sectors for asset investment.⁴⁹

Figure 2.9 compares the actual expenditure to what was estimated at the start of the financial year.

Figure 2.9

Variance between budget estimates and actual results for key elements of the finances for the general government sector, 2012-13



(a) 'Other items of revenue' includes 'other contributions and grants'.

(b) Compares figures from the budget papers to those presented in the Annual Financial Report, not taking into account the change of sector for investment through the new Public Transport Development Authority (see Section 6.2).

Sources: Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, pp.25, 28, 70; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.5, 8, 24

⁴⁶ Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.76

⁴⁷ Due to other non-cash revenues and expenses included in the operating statement, only \$1.7 billion of this was actually available – Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.10

⁴⁸ Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.28

⁴⁹ *ibid.*

Overall, revenue for the general government sector was \$256.2 million more than the budget estimate.⁵⁰ However, there were variations to a number of the components. 'Dividends and income tax equivalent and rate equivalent revenue' and other items of revenue provided significantly more than estimated, offset by less than expected being received from Commonwealth grants and taxation revenue. The reasons for these variances are discussed in Chapter 3.

The decrease in 'grants and other transfers' and increase in other output expenditure was partly a result of the reclassification of some expenditure related to registered training organisations.⁵¹ Other factors impacting on expenditure are discussed in Chapter 5.

The reduced level of net borrowings was possible due to a lower level of overall asset investment than originally budgeted. The reclassification of some spending on public transport infrastructure (budgeted at \$936.8 million and actually \$537.6 million⁵²) led to a higher level of purchases of non-financial assets than anticipated and less investment through other sectors⁵³ than anticipated.⁵⁴ Asset investment is discussed further in Chapter 6.

FINDING: For the general government sector, revenue and output expenditure both exceeded the original budget estimates. Net borrowings and asset investment were less than estimated.

2.3.2

Public non-financial corporations sector

Figure 2.10 below shows the key components of the PNFC sector's finances. Additional detail can be found in Appendix A2.3.

In contrast to the general government sector, the main source of revenue for the PNFC sector comes from sales of goods and services, which provided \$4.9 billion (59.6 per cent of revenue).⁵⁵ The revenue from sales is supplemented by grants, primarily from the general government sector.

Most output expenditure relates to delivering goods and services. In addition, the PNFC sector paid \$1.0 billion in interest expense and \$720.3 million in dividends to the general government sector.⁵⁶

Asset funding for the PNFC sector comes mainly from three sources:

- » the cash equivalent to depreciation (\$1.8 billion);
- » net borrowings (\$1.1 billion); and
- » other financing (net) (\$1.0 billion).

50 *ibid.*, p.116

51 *ibid.*, p.118

52 Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes Entity-Specific Questionnaire, received 4 February 2014, p.24

53 Referred to in the *2012-13 Financial Report* as 'cash flows from investments in financial assets for policy purposes: cash outflows'.

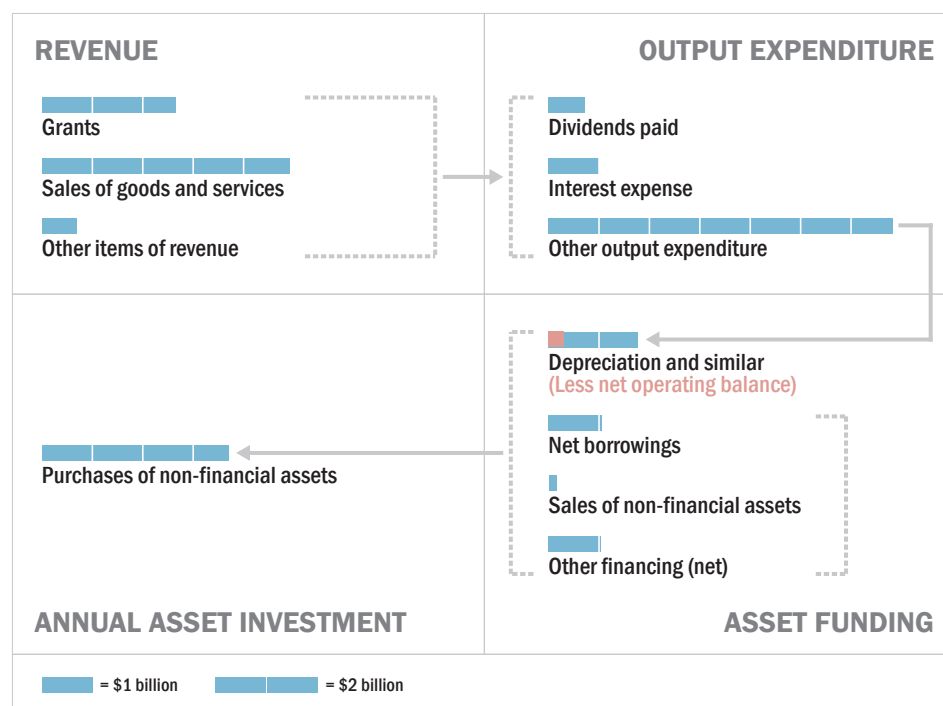
54 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.121

55 *ibid.*, p.58

56 *ibid.*, p.62

Figure 2.10

Key elements of the PNFC sector's finances, 2012-13



Source: Public Accounts and Estimates Committee

In total, the PNFC undertook \$3.7 billion of purchases of non-financial assets. The PNFC sector provided only a small amount of funding for investments in financial assets for policy purposes (a net expense of \$45.0 million).⁵⁷

Figure 2.11 below compares the actual amounts for these components to the budget estimates made in the 2012-13 budget papers.

As can be seen from Figure 2.11 (and Appendix A2.3), revenue from the sales of goods and services was \$529.6 million (9.7 per cent) less than the budget estimate.

The PNFC sector paid \$164.2 million (29.5 per cent) more than budgeted in dividends, due to Government decisions (see Section 2.5 in this report). However, expenditure was less than expected in 'other operating expenses' (see Section 5.4).

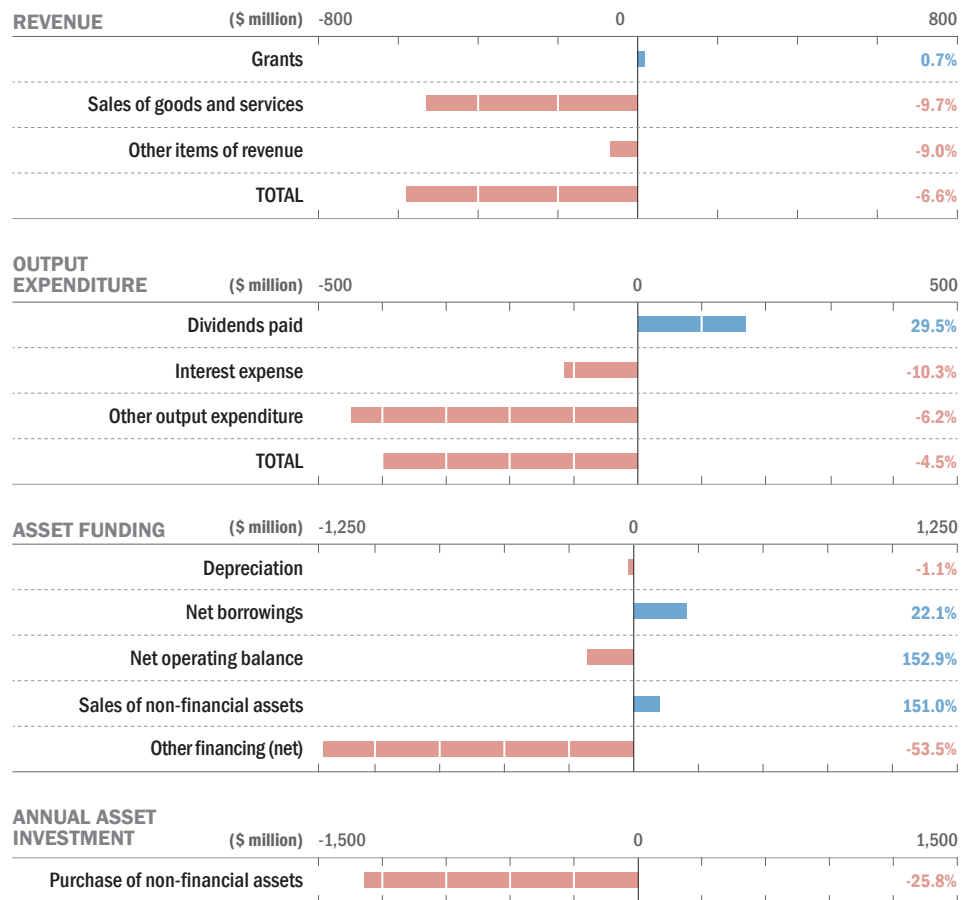
As the variance in revenue was greater than the variance in expenditure, the net operating balance was lower than originally estimated (\$-298.2 million, compared to an estimated \$-117.9 million).⁵⁸

The variation in the asset funding from outside the sector, through 'other financing (net)', and the variation in purchases of non-financial assets are partly a result of a change in accounting treatment. This meant that expenditure identified in the budget papers as investment by the general government sector through the PNFC sector was accounted in the Annual Financial Report as direct investment by the general government sector.⁵⁹ This is discussed further in Section 6.2 of this report.

⁵⁷ *ibid.*

⁵⁸ *ibid.*, p.58; Budget Paper No.5, 2012-13 *Statement of Finances*, May 2012, p.42

⁵⁹ Department of Treasury and Finance, 2012-13 *Financial Report*, October 2013, p.121

Figure 2.11**Variance between budget estimates and actual results for key elements of the finances for the PNFC sector, 2012-13**

Sources: Department of Treasury and Finance, 2012-13 *Financial Report*, October 2013, pp.58, 62; Budget Paper No.5, 2012-13 *Statement of Finances*, May 2012, pp.42, 44-5

FINDING: Both revenue and expenditure in the PNFC sector were less than estimated. Because the variance for revenue was larger, the net operating balance was lower than the budget estimate. Asset investment by the sector was less than expected, partly because of the reclassification of some expenses to the general government sector.

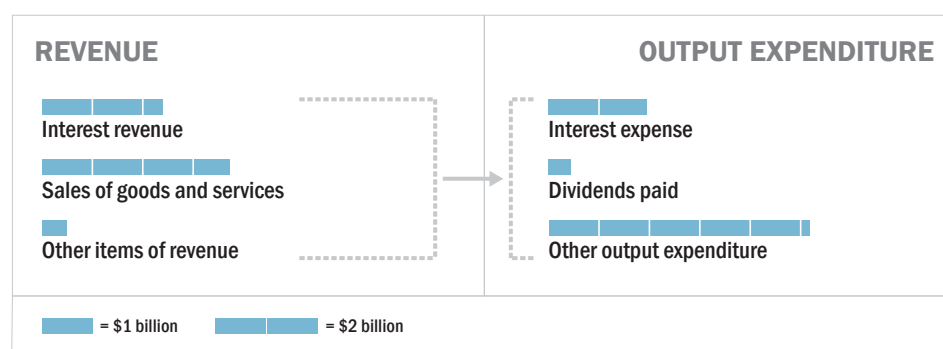
2.3.3**Public financial corporations sector**

The key elements of the PFC sector's finances are set out in Figure 2.12, with details in Appendix A2.4.

The major sources of operating revenue for the PFC sector are sales of goods and services and interest revenue. The interest received is a large amount due to the financing arrangements within the public sector, according to which the Treasury Corporation of Victoria (within the PFC sector) raises money from the private sector or other parts of the public sector and then lends money to public entities that need to borrow. These entities pay interest to the Treasury Corporation, where it becomes interest revenue. The Treasury Corporation in turn pays interest to the sources from which the money was borrowed, and it is recognised as interest expense within the PFC's expenditure. This arrangement is discussed further in Section 4.2 of this report.

Figure 2.12

Key elements of the PFC sector's finances, 2012-13



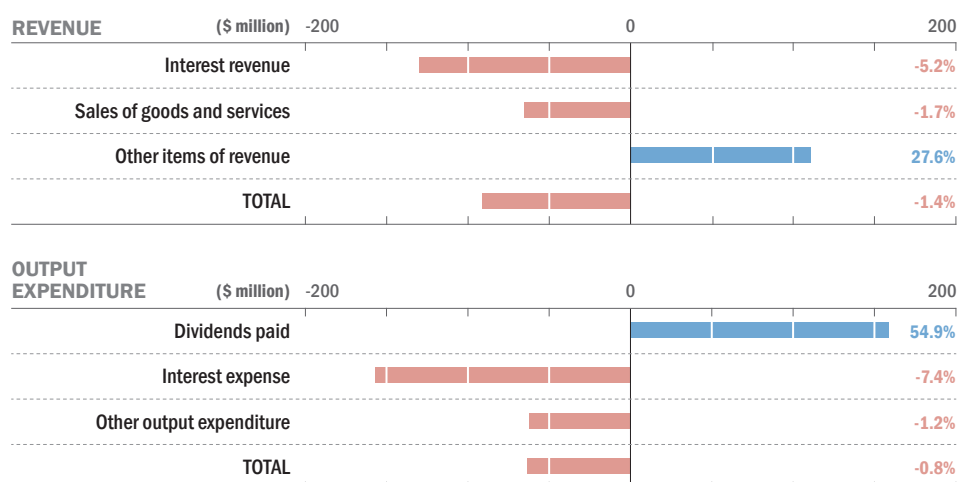
Source: Public Accounts and Estimates Committee

The PFC sector spends small amounts on asset investment compared to the other sectors (\$74.4 million on purchases of non-financial assets in 2012-13⁶⁰).

Both revenue and expenditure for the PFC sector were similar to the budget estimates, as can be seen from Figure 2.13.

Figure 2.13

Variance between budget estimates and actual results for key elements of the finances for the PFC sector, 2012-13



Sources: Department of Treasury and Finance, 2012-13 Financial Report, October 2013, pp.59, 63; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, pp.57, 61

The amount of interest revenue and interest expense were both lower than the original budget estimate. This was due to lower-than-anticipated borrowings by the public sector as a whole (see Section 4.3).

Dividends expenditure by the PFC sector was also higher than expected, due to Government decisions, as described in Section 2.5 of this report.

As noted in Section 3.5, income from investments is also an important part of the PFC sector's financing. The PFC sector's net operating balance, which does not include this income, was \$-978.5 million. In contrast, the net result, which

60 *ibid.*, p.63

includes this income, was \$3,259.7 million.⁶¹ This is significantly more than the budget estimate of \$396.3 million.⁶²

FINDING: For the public financial corporations sector, both operating revenue and expenditure were similar to the budget estimates. The result was a net operating balance of \$-978.5 million. However, when income from investments and other economic flows are factored in, the net result for the sector was \$3.3 billion.

2.4

Economic conditions that influenced outcomes

The gross state product (GSP) is an indicator of the strength of Victoria's economy. During 2012-13 nominal GSP grew by \$9.2 billion from \$328.3 billion to \$337.5 billion.⁶³

Table 2.1 lists the other key economic variables identified by the Government as influencing the 2012-13 budget estimates.

Table 2.1

Key economic projections underlying the 2012-13 budget estimates

Change to	2011-12	2012-13	2012-13	Variance (2012-13 Budget to actual)
	Actual	Budget	Actual	
	(percentage change)	(percentage change)	(percentage change)	
Real gross state product	2.8	1.75	1.6	-0.15
Employment numbers	0.8	0.25	0.9	0.65
Unemployment rate ^(a)	5.9	4.5	3.7	-0.8
Consumer price index	2.3	2.75	2.2	-0.55
Wage price index	3.5	3.0	3.3	0.3
Population	1.7	1.6	1.9	0.3

(a) This indicator is the change in the unemployment rate, rather than the unemployment rate itself. Calculated by the Committee based on unemployment rates provided by the Department of Treasury and Finance.

Sources: Department of Treasury and Finance, 'Macroeconomic Indicators' data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, accessed 20 December 2013; ABS Cat. No. 3101.0, accessed 20 December 2013

Table 2.1 shows that, overall, the Victorian economy grew in 2012-13. Some economic indicators performed better than expected, while others were less positive. The Government's summary of the economic context reflects this, indicating both that '*Victoria's economic fundamentals are strong*' and that '*Victoria continued to face a number of economic challenges*'.⁶⁴

61 *ibid.*, p.59

62 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.57

63 Department of Treasury and Finance, 'Macroeconomic Indicators', <www.dtf.vic.gov.au/Publications/Victoria-Economy-Publications/Macroeconomic-indicators>, accessed 10 April 2014

64 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.1

These economic variables are largely responsible for the amount received from taxation revenue, which was \$252.2 million less than the budget estimate in 2012-13.⁶⁵ The largest contributing factor to this was land transfer duty, which was \$171.1 million less than the budget estimate.⁶⁶ The Government attributed this to ‘a weaker volume of transactions and prices compared to expectations in the original budget’.⁶⁷

Similar economic variables at the Commonwealth level meant that revenue from the GST was \$52.2 million less than expected in the 2012-13 Budget.⁶⁸

These revenue sources are discussed further in Section 3.2 of this report.

Due to changes in financial markets, the Commonwealth bond rate rose during 2012-13. As a result, the discount rate used to calculate superannuation liabilities rose from 3.4 to 4.3 per cent (slightly less than the 4.4 per cent that had been expected in the 2012-13 budget papers).⁶⁹ This resulted in a reduction in the superannuation liability, as discussed in Section 2.2.3 above and further in Section 4.4.2 of this report.

FINDING: Victoria's gross state product grew during 2012-13. With respect to other economic factors influencing the budget, some were more positive than expected, while others were less positive than expected.

FINDING: Partly as a result of the economic conditions, taxation revenue provided \$252.2 million less than originally estimated and revenue from the GST was \$52.2 million less than anticipated.

2.5

Government actions that influenced outcomes

The Government released a number of initiatives after the 2012-13 budget papers which impacted on expenditure in 2012-13.

The 2012-13 Budget Update included new output initiatives which were expected to cost over \$69.5 million in 2012-13.⁷⁰ This cost was partly offset by measures estimated by the Government to reduce expenditure by \$27.0 million in 2012-13⁷¹ and the release of contingency provisions.⁷² The 2012-13 Budget Update also detailed new asset initiatives with an estimated cost in 2012-13 of more than \$26.2 million.⁷³

⁶⁵ *ibid.*, p.116

⁶⁶ Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.23; Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.68

⁶⁷ Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.117

⁶⁸ Committee calculation based on Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.24, Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.70

⁶⁹ Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.20; Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.74, where it is listed as the ‘discount rate’.

⁷⁰ Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, Appendix A; estimates were not included in the budget papers for one initiative.

⁷¹ Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.124

⁷² *ibid.*, p.27

⁷³ Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, Appendix A; estimates were not included in the budget papers for two initiatives.

The 2013-14 Budget (released in May 2013) included a number of new initiatives with expenditure in 2012-13. This included output initiatives with a cost of \$44.7 million in 2012-13 and asset initiatives with a cost of \$24.0 million in 2012-13.⁷⁴

The Department of Treasury and Finance also indicated that two more dividends were negotiated in 2012-13 than had been anticipated at budget time, which is connected with the dividends from the State Electricity Corporation of Victoria (see Section 3.2.3).⁷⁵

The Committee notes that the total value of fines and regulatory fees also rose between 2011-12 and 2012-13 (see Table 2.2). As can be seen from the table, some growth was expected in the budget estimates, but the actual growth exceeded the anticipated amounts.

Table 2.2

Fines and regulatory fees

	2011-12	2012-13	2012-13	Variation (2012-13 Budget and actual)
	Actual	Budget	Actual	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Fines	548.0	662.5	700.3	5.7
Regulatory fees	583.7	528.4	638.9	20.9

Sources: Budget Paper No.5, 2012-13 Statement of Finances, May 2012, pp.24-5; Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.70

The Annual Financial Report notes that *'an increase in regulatory fees for infringements'* was a factor leading to more revenue than anticipated,⁷⁶ but does not go into any further details. The Department of Treasury and Finance indicated to the Committee that the increase in fines compared to the budget estimates was *'primarily due to the processing of a backlog of toll road evasion fines from 2011-12'*.⁷⁷ This decision also contributed to increasing the revenue in 2012-13 beyond the budget estimate.

FINDING: Initiatives released after the Budget, negotiating additional dividends and a decision to process a backlog of fines, impacted on the finances in 2012-13.

2.6**Other external factors that influenced outcomes**

The 2012-13 financial outcomes were also impacted by decisions in which the State Government was not the only party. These included specific-purpose grants from the Commonwealth and enterprise bargaining agreements with public sector workers.

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

75 Department of Treasury and Finance, Annual Report 2012-13, p.20

76 Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.117

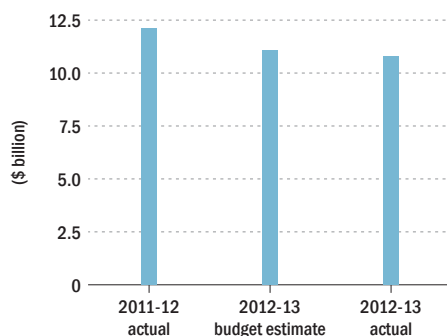
77 Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, p.17

In 2012-13, the general government sector received \$10.8 billion⁷⁸ in specific-purpose grants from the Commonwealth. These are generally grants which are restricted to particular areas of spending. While some of these grants are determined according to pre-agreed formulae, others are influenced by decisions of the Commonwealth Government.

The funding received through specific-purpose grants in 2012-13 was less than was received in 2011-12 and less than the budget estimate for 2012-13 (see Figure 2.14).

Figure 2.14

Specific-purpose grants, 2011-12 to 2012-13



Note: Includes grants for on-passing (primarily to non-government schools and local government).

Sources: Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.24; Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.70

The Government expected the decline between 2011-12 and 2012-13 mainly as a result of the lapsing of programs funded as part of the Commonwealth's *Economic Stimulus Plan* and the bringing forward of funding for some infrastructure projects from 2012-13 to 2011-12.⁷⁹

The Government has indicated that the actual result was lower than the budget estimate 'primarily due to a decrease in specific purpose grants for Nation Building road and rail investment and the National Schools Program'⁸⁰ (see further in Section 3.2.1). At the time of the 2012-13 Budget Update, the Government also noted Commonwealth Government decisions to:⁸¹

- » bring forward \$500 million in grants from 2012-13 to 2011-12 relating to roads, the Housing Affordability Fund and local government; and
- » reduce National Health Reform payments by \$107 million.

The Committee notes that the National Health Reform payments were re-instated after the Budget Update.⁸²

For at least some of the Commonwealth funding, the reduction in grants was also accompanied by a reduction in expenditure. In these cases, there was no impact on the net operating balance.

⁷⁸ Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.70

⁷⁹ Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.175

⁸⁰ Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.117

⁸¹ Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, pp.22, 26

⁸² See further discussion in Public Accounts and Estimates Committee, *Report on the 2013-14 Budget Estimates — Part Two*, October 2013, pp.80-2

The 2012-13 result was also affected by enterprise bargaining agreements between the Government and the public sector workforce. In discussing risks to the budget estimates, the 2012-13 budget papers identify that:⁸³

Employee expenses are the largest expense incurred by the State. Major enterprise bargaining agreements for teachers and the Victorian public service are currently being negotiated. If the related costs exceed the available funding, this will increase expenditure.

Agreements were reached with both teachers and the Victorian public service in 2012-13. The Government indicated that enterprise bargaining agreements are one factor which led to employee expenses for the general government sector exceeding the budget estimates by \$531.3 million in 2012-13.⁸⁴ Employee expenses are discussed further in Section 5.3 of this report.

FINDING: The revenue received through specific-purpose grants from the Commonwealth was less than had been anticipated in the Budget due to changes to a number of programs. Enterprise bargaining agreements reached in 2012-13 with public sector employees resulted in higher employee expenses than anticipated in the budget estimates.

2.7

Financial outcomes compared to targets

The Government introduced a medium-term fiscal strategy in the 2012-13 budget papers, with four targets.⁸⁵ Table 2.3 sets out the strategy's targets and the Committee's analysis of the 2012-13 results.

Of the four targets in the strategy, two relate to future years and therefore cannot yet be assessed. These are both discussed further in Section 4.5.1 of this report. The two targets that can be assessed have both been met.

The Department of Treasury and Finance provided further comment on the Government's results compared to the strategy in its response to the Committee's General Questionnaire, which can be viewed on the Committee's website (www.parliament.vic.gov.au/paec).

⁸³ Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.52

⁸⁴ Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.118; Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes Entity-Specific Questionnaire, received 4 February 2014, p.25

⁸⁵ Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, pp.8-9

Table 2.3

Medium-term fiscal strategy

Target	Committee comment
Infrastructure investment of 1.3 per cent of GSP (calculated as a rolling five-year average)	The Annual Financial Report does not disclose the figure used most recently by the Government in calculating compliance with this target. ^(a) However, the Department of Treasury and Finance informed the Committee that <i>'The rolling five-year average for net infrastructure investment in 2012-13 was 1.7 per cent of GSP'</i> . ^(b)
General government net debt reduced as a percentage of GSP over the decade to 2022	General government sector net debt increased from 4.6 per cent of GSP to 5.9 per cent during 2012-13. This was less than had been estimated in the 2012-13 Budget (6.1 per cent). ^(c) As the target relates to 2022 and intermediate targets have not been disclosed, it is not possible for the Committee to assess whether or not this result is in line with the target.
Fully fund the unfunded superannuation liability by 2035	The general government sector unfunded superannuation liability reduced from \$32.6 billion to \$25.1 billion during 2012-13, ^(d) driven largely by changes in the discount rate (see Section 4.4.2 of this report). As the target relates to 2035 and intermediate targets have not been disclosed, it is not possible for the Committee to assess whether or not this result is in line with the target. However, the Department of Treasury and Finance informed the Committee that, <i>'The goal to fully fund the unfunded superannuation liability by 2035 remains on course in 2012-13'</i> . ^(e)
A net operating surplus of at least \$100 million and consistent with the infrastructure and debt parameters	The general government sector achieved a net operating balance of \$316.4 million in 2012-13. ^(f)

Sources: Public Accounts and Estimates Committee, and:

- (a) 'Government infrastructure investment' – see Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, pp.8, 44
- (b) Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, p.47
- (c) Committee calculations based on Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, pp.27, 119; and Department of Treasury and Finance, 'Macroeconomic Indicators' data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, accessed 14 January 2014
- (d) Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.27
- (e) Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, p.47
- (f) Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.25

FINDING: The Government's medium-term fiscal strategy contains four targets. Two targets relate to future years and cannot yet be assessed. The Government has met both of the targets that can be assessed.

The 2012-13 budget papers also included an economic reform strategy.⁸⁶ This strategy identified a number of intended actions based on four ‘pillars’:⁸⁷

- » *creating significantly stronger budget capacity to fund infrastructure, maintain high quality services and keep taxes competitive;*
- » *improving productivity, through investment in economic infrastructure, skills reform, creating competitive markets and reducing business costs;*
- » *growing export markets to support Victorian businesses, particularly through enhanced international engagement; and*
- » *supporting industries and employees in transition.*

In response to the Committee’s questionnaire, the Department of Treasury and Finance provided examples of a number of actions taken towards the goals of the strategy.⁸⁸ This can be read in full on the Committee’s website (www.parliament.vic.gov.au/paec).

86 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, pp.24-33

87 *ibid.*, p.24

88 Department of Treasury and Finance, response to the Committee’s 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, pp.48-54

3.1

Introduction

Revenue for the Victorian public sector was \$54.2 billion in 2012-13, a decrease of \$254.8 million (0.5 per cent) from 2011-12.⁸⁹ This was \$588.7 million (1.1 per cent) below the amount anticipated in the 2012-13 budget papers.⁹⁰

While revenue for the State as a whole was below expectations, this was not the case for all three sectors that make up the State. As described in Chapter 2, revenue for the general government sector exceeded the level that had been anticipated in the 2012-13 budget papers, but both the public non-financial corporations sector and the public financial corporations sector received less revenue than had been expected.

This chapter examines sources of revenue, performance against expectations, and reasons for variances from expectations for:

- » the general government sector (Section 3.2);
- » the public non-financial corporations sector (Section 3.3); and
- » the public financial corporations sector (Section 3.4).

In addition, the chapter seeks to address the questions:

- » How do results from agencies in the different sectors contribute to the State's financial statements? (Section 3.5); and
- » How much revenue was foregone by the Government as part of concessions, subsidies and tax expenditures? (Section 3.6)

3.2

General government sector

Revenue for the general government sector was \$48.6 billion in 2012-13, which is a \$730.6 million (1.5 per cent) increase from 2011-12.⁹¹ This was also \$256.2 million (0.5 per cent) above the amount anticipated in the 2012-13 budget papers.⁹²

Major sources of revenue for the general government sector are shown in Figure 3.1 below, and detailed further in Appendix A3.1.1.

Figure 3.1 shows that the greatest proportion of revenue (45 per cent) for the State comes from Commonwealth Government grants. This is discussed in Section 3.2.1.

Own-sourced revenue provides nearly one-third of total revenue for the State. This is made up of a number of different taxation streams such as payroll tax, property taxes, and motor vehicle taxes. State taxation is discussed further in Section 3.2.2.

89 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.25

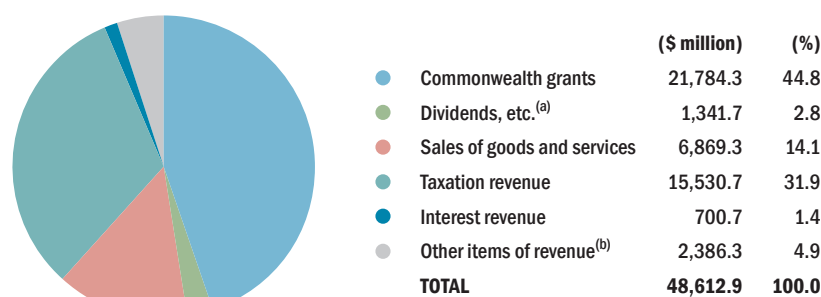
90 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.65

91 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.25

92 *ibid.*, p.116

Figure 3.1

Revenue components, general government sector, 2012-13



(a) Included in the budget papers as 'Dividends and income tax equivalent and rate equivalent revenue'.

(b) 'Other items of revenue' includes: 'other contributions and grants'; 'fair value of assets received free of charge or for nominal consideration'; 'fines'; 'royalties'; 'donations and gifts'; 'other non-property rental'; and 'other miscellaneous revenue'.

Source: Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, pp.25, 70

Other sources of revenue are smaller, including 'sales of goods and services' and 'dividends and income tax equivalent and rate equivalent revenue'. These components are discussed in Sections 3.2.3, 3.2.4 and 3.2.5.

FINDING: Total revenue for the general government sector was \$48.6 billion in 2012-13. This was \$256.2 million (0.5 per cent) above the amount anticipated in the 2012-13 budget papers. The major sources of revenue for 2012-13 were Commonwealth grants and the State's own-sourced taxation, providing 77 per cent of the total.

As discussed in Section 2.4, economic outcomes for the State were mixed when compared to expectations set out in the 2012-13 budget papers. Employment and population growth were slightly more than anticipated, supporting general revenue.⁹³ However, overall growth of gross state product was less than expected.⁹⁴ This affected important revenue items such as land tax and GST grants from the Commonwealth Government.

Responding to these conditions, the Government made a number of adjustments to revenue streams, including revenue from fines and regulatory fees resulting from fines. It also increased the amount expected in dividend payments.⁹⁵

Variations from amounts expected in the 2012-13 budget papers for these revenue components are shown in Figure 3.2, and are discussed further in the following sections.

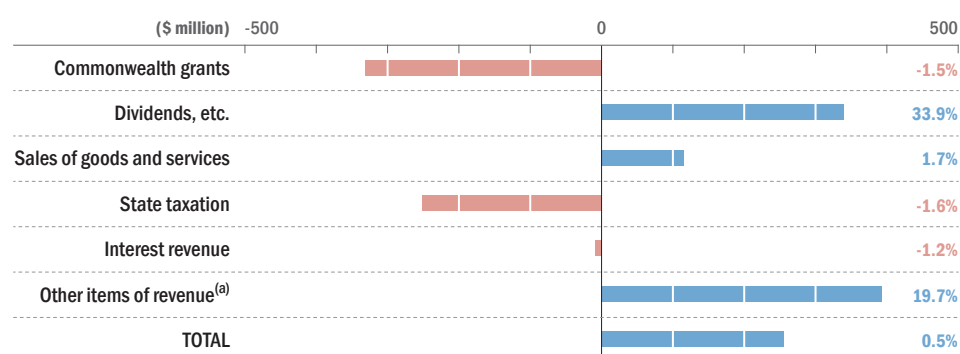
93 Department of Treasury and Finance, 'Macroeconomic Indicators' data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, accessed 14 January 2014

94 *ibid.*

95 The 2012-13 Budget Update increased the amount anticipated from dividends from \$843.6 million (Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.24) to \$1,100.9 million (Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.63), mainly as a result of the dividend from the State Electricity Commission of Victoria (Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.22).

Figure 3.2

Variances between budget estimates and actual results, revenue components, general government sector, 2012-13



(a) 'Other items of revenue' includes: 'other contributions and grants'; 'fair value of assets received free of charge or for nominal consideration'; 'fines'; 'royalties'; 'donations and gifts'; 'other non-property rental'; and 'other miscellaneous revenue'.

Source: Budget Paper No.5, 2012-13 Statement of Finances, May 2012, pp.5, 24; Department of Treasury and Finance, 2012-13 Financial Report, October 2013, pp.25, 70

3.2.1

Commonwealth Grants

Grants revenue from the Commonwealth provided nearly half of the revenue to the general government sector for the year. The amount received was \$21.8 billion,⁹⁶ which was \$332.1 million (1.5 per cent) less than anticipated in the 2012-13 budget papers.⁹⁷

Components of grants revenue are set out in Appendix A3.2.

General-purpose (GST) grants form the largest part of grants from the Commonwealth. Revenue from these grants was \$52.2 million less than originally anticipated, mainly due to less than expected goods and services tax revenue leading to a smaller GST pool available for distribution.⁹⁸

This was substantially less than the \$564.6 million variation in GST grants in 2011-12.⁹⁹ This improved position is consistent with a larger GST revenue budget for 2012-13. The budget papers identified this as reflecting an expected recovery in the national GST pool and a larger share compared to 2011-12. Both of these factors were borne out.¹⁰⁰

Specific-purpose grants¹⁰¹ were \$279.9 million (2.5 per cent) less than anticipated in the 2012-13 budget papers.¹⁰² The Committee notes that the equivalent position in 2011-12 was \$631.7 million more than budget.¹⁰³ The fall in revenue from 2011-12 was mainly due to the early payment of a series of Commonwealth grants as well as the winding up of the *Building the Education Revolution* program.¹⁰⁴

96 Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.70

97 Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.24

98 Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.117

99 Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.26; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.24; Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.70

100 Commonwealth Government, 2011-12 Final Budget Outcome, 2012, p.71; Commonwealth Government, 2012-13 Final Budget Outcome, 2013, p.75

101 This is made up of 'specific purpose grants for on-passing' and 'other specific purpose grants'.

102 Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.24; Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.70

103 Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.26; Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.70

104 Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.6

According to the Department of Treasury and Finance (DTF), the decreased revenue in specific-purpose grants is:¹⁰⁵

... primarily due to a decrease in specific purpose grants for Nation Building road and rail investment and the National Schools Program ...

At the time of the 2013-14 Budget, the amount for 2012-13 expected from the *Nation Building – AusLink (Road and Rail)* program decreased from \$405.0 million¹⁰⁶ to \$184.2 million.¹⁰⁷ DTF commented that this ‘*reflects the timing of cash flows provided by the Commonwealth in relation to particular projects*’.¹⁰⁸

The Committee also notes that a decrease in revenue was expected through the *National Education Agreement*, with the amount anticipated under this program decreasing from \$936.1 million¹⁰⁹ to \$917.6 million.¹¹⁰

FINDING: Total Grants from the Commonwealth were \$332.1 million (1.5 per cent) less than expected in the 2012-13 budget papers. This was mostly a result of less-than-expected specific-purpose grants in infrastructure and education.

3.2.2

State taxation

Revenue resulting from State taxation was \$15.5 billion,¹¹¹ which was \$252.2 million (1.6 per cent) less than expected in the 2012-13 budget papers.¹¹²

Land transfer duty revenue for 2012-13 was \$3.3 billion,¹¹³ which was \$171.1 million less than originally forecast.¹¹⁴ DTF states that ‘*this reflected both a weaker volume of transactions and prices compared to expectations in the original budget*’.¹¹⁵ The amount anticipated at the time of the 2012-13 Budget Update had been adjusted downwards,¹¹⁶ but ‘*the property market showed improvement in the second half of 2012-13*’.¹¹⁷ This late improvement resulted in the outcome being between the original and the updated forecasts.

Mitigating this was land tax revenue of \$48.1 million (3.1 per cent) more than had been forecast.¹¹⁸ This was due to a greater-than-anticipated value of land revaluation for the two years to January 2012.¹¹⁹

105 *ibid.*, p.117

106 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.180

107 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.194

108 *ibid.*

109 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.175

110 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.190

111 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.25

112 *ibid.*, p.116

113 *ibid.*, p.68

114 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.23

115 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.117

116 Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.62

117 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.117

118 *ibid.*, p.68; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.23

119 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.117

Payroll tax provided \$61.3 million (1.3 per cent) less than originally anticipated.¹²⁰ Variances in payroll tax are primarily driven by employment conditions in the economy. The Committee notes that although employment grew faster than had been forecast in the 2012-13 budget papers,¹²¹ the Government had anticipated that payroll tax would be '*below trend in 2012-13 with businesses expressing caution about hiring ...*'.¹²²

Gambling taxes contributed \$1.7 billion,¹²³ \$77.3 million (4.2 per cent) less than the original budget.¹²⁴ The main contributor to this less-than-expected result was \$111.7 million less than expected from electronic gaming machines, partially offset by more revenue than expected from private lotteries.¹²⁵ The Committee also notes that the racing contribution to gambling taxes was \$87.5 million,¹²⁶ which was not only 8.1 per cent less than expected,¹²⁷ but 27.7 per cent less than the previous year.

FINDING: Revenue from State taxation in 2012-13 was \$252.2 million (1.6 per cent) less than expected. According to the Department of Treasury and Finance, this was primarily due to less-than-predicted revenue from land transfer duty, gambling taxes and payroll tax. Partially offsetting this was more revenue than expected from land tax. Revenue from taxes on racing fell sharply from 2011-12.

3.2.3

Dividends and similar revenue

This revenue stream mostly comprises dividend payments from government entities in the public non-financial corporations and public financial corporations sectors.¹²⁸

For the general government sector, revenue in this category was \$339.9 million more than originally forecast.¹²⁹ The primary cause of this was the declaration of a \$350.0 million ordinary dividend from the State Electricity Commission of Victoria (SECV).¹³⁰ In addition to this, a \$63.8 million special dividend was declared, which was paid on 12 July 2013.¹³¹ The last dividend the SECV paid to its owners was for 2006-07.¹³²

120 *ibid.*, p.68; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.23

121 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.14; Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013 p.13

122 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.165

123 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.68

124 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.164

125 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.117

126 *ibid.*, p.68

127 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.23

128 The remainder of this category is mostly made up of income tax equivalent revenue received from government business enterprises.

129 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.116

130 State Electricity Commission of Victoria, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, p.2; Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.117

131 State Electricity Commission of Victoria, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, p.2

132 State Electricity Commission of Victoria, annual reports 2006-07 to 2012-13

The Committee notes that operating surpluses and dividends received from Snowy Hydro Limited have contributed over time to the SECV's accumulated surplus. During 2012-13, the SECV received a dividend of \$133.4 million from Snowy Hydro Limited, a company jointly owned by Victoria, New South Wales and the Commonwealth.¹³³ This dividend was \$63.8 million more than anticipated for 2012-13,¹³⁴ and formed the basis for the special dividend payable by the SECV to the Victorian Government.¹³⁵ The payment of dividends in 2012-13 by the SECV was able to be funded from its accumulated surplus.¹³⁶

The Committee asked DTF whether the \$350.0 million dividend had been anticipated. In response, the Department commented that:¹³⁷

The 2013-14 Budget estimated a \$350 million dividend from the SECV in 2012-13.

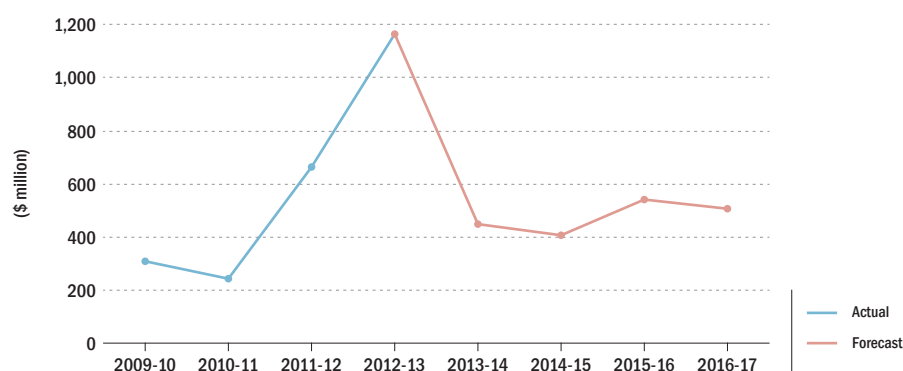
FINDING: Dividend revenue for the general government sector was \$339.9 million more than originally forecast. The State's 2012-13 *Financial Report* has reported that this was primarily a result of a dividends from the State Electricity Commission of Victoria, including a special dividend.

Dividends over time

Figure 3.3 shows the dividends paid to the general government sector by entities in other sectors. Dividend payments increase revenue to the general government sector and therefore support the operating result.

Figure 3.3

Dividends paid by the public financial corporations sector and the public non-financial corporations sector to the general government sector, 2009-10 to 2016-17



Sources: Annual Financial Reports 2009-10 to 2012-13; Budget Paper No.5, 2013-14 *Statement of Finances*, May 2013, p.24

Figure 3.3 shows that the level of dividends from other sectors to the general government sector fluctuates over time, with the timing of the dividends from the SECV influencing the rise in 2012-13.

133 Department of Treasury and Finance, 2012-13 *Financial Report*, October 2013, p.69; State Electricity Commission of Victoria, *Annual Report 2012-2013*, p.30

134 State Electricity Commission of Victoria, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, p.6

135 Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, p.2

136 State Electricity Commission of Victoria, *Annual Report 2012-13*, p.10

137 Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, p.2

However, the 2013-14 budget papers anticipate that this inter-sectoral flow will be at a substantially reduced level over the next four years.

FINDING: The level of dividends in the general government sector received from other sectors can fluctuate over time with the timing of dividends from the State Electricity Commission of Victoria contributing to an increase in 2012-13. Dividends are forecast to decrease to consistently reduced levels over the next four years.

3.2.4

Sales of goods and services

Sales by the general government sector provided \$6.9 billion in revenue during 2012-13.¹³⁸ This was \$116.1 million more than had been forecast in the 2012-13 budget papers.¹³⁹

The principal contributor to this was more-than-expected revenue from 'other regulatory fees',¹⁴⁰ which produced revenue of \$470.3 million,¹⁴¹ \$104.8 million above expectations.¹⁴²

DTF explains the more-than-expected revenue from sales of goods and services was primarily the result of '*an increase in regulatory fees for infringements*'.¹⁴³

The Committee notes that at the time of the 2012-13 Budget, revenue from other regulatory fees was expected to decrease from the previous year.¹⁴⁴ The latest estimate before year-end, published in the 2013-14 Budget, predicted a smaller decrease from this revenue source.¹⁴⁵ The actual result was about \$69.8 million more than this latest estimate and \$45.3 million greater than 2011-12.¹⁴⁶

A reclassification of funds from sales of goods and services to 'other revenue' with respect to hospital funding is noted in Section 3.2.5. This reclassification reduced revenue from sales of goods and services and raised that for other revenue.

FINDING: Revenue from sales of goods and services by the general government sector was \$116.1 million more than expected. The 2012-13 Financial Report states that this was primarily due to an increase in other regulatory fees.

138 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.70

139 *ibid.*, p.116

140 That is, regulatory fees relating to infringements other than motor vehicle infringements.

141 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.70

142 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.24

143 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.117

144 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.24; Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.70

145 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.244

146 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.70

3.2.5

Other items of revenue

This category includes fines, donations and gifts, assets received for free (or below their actual value), as well as a number of miscellaneous items. It also includes contributions and grants received from bodies other than the Commonwealth Government. Revenue from this group for 2012-13 was \$2.4 billion,¹⁴⁷ which was \$393.3 million more than budgeted.¹⁴⁸

Fines

As forecast in the 2012-13 budget papers,¹⁴⁹ revenue resulting from fines increased strongly over 2012-13.¹⁵⁰ Actual revenue from fines was \$700.3 million, which was \$37.8 million more than expected.¹⁵¹ This was:¹⁵²

... primarily due to the processing of a backlog of toll road evasion fines from 2011-12.

The Committee notes that this backlog was taken into account in the revised figure published in the 2013-14 budget papers.¹⁵³

Assets received below their value

Revenue from 'fair value of assets received free of charge or for nominal consideration' was \$98.1 million more than the original estimate of just \$1.3 million.¹⁵⁴

The Department of Transport, Planning and Local Infrastructure (through VicRoads and Public Transport Victoria) received revenue of \$54.0 million under this item.¹⁵⁵ The Department advised the Committee that this:¹⁵⁶

... includes assets received from local government, bus shelters constructed by Adshel and the use by Public Transport Victoria of myki assets owned by the Transport Ticketing Authority.

In addition, the Department of Environment and Primary Industries received revenue of \$5.0 million¹⁵⁷ in assets received free of charge 'as a result of the ongoing audit of the ownership of Crown land'.¹⁵⁸

147 *ibid.*

148 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.24-5

149 *ibid.*, p.25

150 The expected increase was largely a result of the *Increased Penalty Unit Value* initiative released as part of the 2012-13 Budget (Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.80)

151 Department of Treasury and Finance; *2012-13 Financial Report*, October 2013, p.70.

152 Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, p.17

153 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.245

154 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.25; Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.70

155 Department of Transport, Planning and Local Infrastructure, *Annual Report 2012-13*, p.105

156 Department of Transport, Planning and Local Infrastructure, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.41

157 Department of Environment and Primary Industries, *Annual Report 2013*, p.185

158 Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, p.18

The Department of Health received \$16.1 million in ‘assets and services received free of charge or for nominal consideration’.¹⁵⁹ The Department advised the Committee that the effect of this was ‘*additional revenue for health services*’.¹⁶⁰

Other miscellaneous revenue

‘Other miscellaneous revenue’ was \$1.1 billion, which was \$179.8 million above the amount anticipated in the 2012-13 budget papers.¹⁶¹ Part of this variance was a result of a reclassification in hospital funding that occurred during the year. DTF advised the Committee that revenue for the Department of Health was higher than anticipated:¹⁶²

... predominantly driven by the Commonwealth providing funding directly to hospitals, which is recorded as Other Revenue.

It further explained that:¹⁶³

This was unbudgeted Other Revenue because the Commonwealth originally advised they would provide hospital funding by Specific Purpose Payment grants, which are recorded as Sales of Goods and Services, but then reduced the amount of the grants. Late in the year the Commonwealth reinstated the funding through direct payments to hospitals.

This reclassification of the relevant Commonwealth funds helps to explain the movements in the relative items.

In addition, the contribution to ‘other revenue’ for the Department of State Development, Business and Innovation from land sales for the *Kew Residential Services Redevelopment* was more than anticipated.¹⁶⁴ This was ‘*due to the predicted earlier than expected completion of the project and higher than expected sales values*’.¹⁶⁵ However, the overall ‘other income’ for the Department was below the original estimate, ‘*reflecting the profile of portfolio revenue*’.¹⁶⁶

FINDING: ‘Other items of revenue’ for the general government sector was \$393.3 million more than estimated in the 2012-13 Budget. Departments advised the Committee this was due to: the processing of a fines backlog from the previous year; recognition of assets received below their value by VicRoads, Public Transport Victoria and the Department of Environment and Primary Industries; more-than-expected land sales; and the rearrangement of Commonwealth hospital funding during the year.

¹⁵⁹ Department of Health, *Annual Report 2012-13*, p.138

¹⁶⁰ Department of Health, response to the Committee's 2012-13 Financial and Performance Outcomes – General Questionnaire, received 28 November 2013, p.24

¹⁶¹ Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.25; Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.70

¹⁶² Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, pp.17-18

¹⁶³ *ibid.*, p.18

¹⁶⁴ Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.118

¹⁶⁵ Department of State Development, Business and Innovation, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 31 January 2014, p.4

¹⁶⁶ Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, p.17

3.3

Public non-financial corporations sector

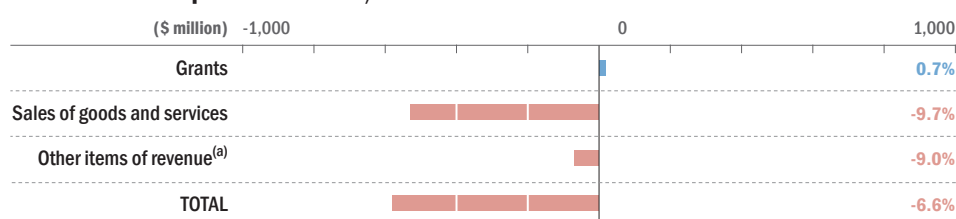
Revenue for the public non-financial corporations (ttt) sector was \$8.3 billion in 2012-13, which is \$34.4 million (0.4 per cent) more than 2011-12.¹⁶⁷ This was \$579.1 million (6.6 per cent) below the amount anticipated in the 2012-13 budget papers.¹⁶⁸ However, the Committee notes that the amount anticipated at the time of the Budget Update was \$8.2 billion.¹⁶⁹

Components of revenue for the public non-financial corporations sector are included in Appendix A3.1.2.

Figure 3.4 shows that the bulk of the variance from budget for the year was a result of less-than-expected sales of goods and services in the sector.

Figure 3.4

Variances between budget estimates and actual results, revenue components, public non-financial corporations sector, 2012-13



(a) 'Other items of revenue' includes: 'interest'; 'dividends and income tax equivalent and rate equivalent revenue'; and 'other revenue'.

Sources: Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.42; Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.58

The Committee notes that because of their specific characteristics, entities in the PNFC sector are not required to include budget figures for the year in annual reports.¹⁷⁰ The Committee received descriptions of variances from targets from entities in the sector, but the total of the variances for the year did not equate to that included in the Annual Financial Report.¹⁷¹ Variances in that report are based on the revised estimate rather than the initial budget. As a result, identification of budget variances for this sector is difficult.

FINDING: Revenue for the public non-financial corporations sector was \$8.3 billion in 2012-13. This was \$579.1 million below the amount anticipated in the 2012-13 budget papers, but close to the amount expected in the 2012-13 Budget Update. Identification of variances against budgets is difficult in this sector as budgets are not published in agencies' annual reports and variances in the Annual Financial Report are based on the revised estimate rather than the initial budget.

¹⁶⁷ Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.58

¹⁶⁸ Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.42

¹⁶⁹ Department of Treasury and Finance, 2012-13 Victorian Budget Update, December 2012, p.81

¹⁷⁰ Only departments are required to include a comparison between their portfolio financial statements published in the budget papers and actual results for the portfolio for the year (FRD 8B (Consistency of Budget and Departmental Reporting), January 2009, p.1)

¹⁷¹ Total revenue reported by PNFC entities in responses to the Committee's questionnaire was \$134 million above expected values.

RECOMMENDATION 1: The Department of Treasury and Finance investigate ways of changing the guidance for entities other than departments to enable the Parliament and other stakeholders to compare the actual revenue for those entities against the original forecasts that were set for the year.

Sales of goods and services

Sales of goods and services provides the majority (around 60 per cent) of income for the sector. Revenue in this category for 2012-13 totalled \$4.9 billion,¹⁷² which was \$529.6 million less than the \$5.4 billion originally anticipated.¹⁷³ At the time of the Budget Update, the amount anticipated was adjusted downwards to \$4.9 billion.¹⁷⁴

The 2012-13 Budget Update adjusted the expected net result of the non-financial public sector¹⁷⁵ downwards.¹⁷⁶ Factors causing this were from the PNFC sector, as follows:¹⁷⁷

- » the price freeze for metropolitan water businesses following the early recovery of desalination costs in 2011-12;
- » worse-than-expected outcomes for Goulburn-Murray Water due to timing changes resulting from the *Connections Project*; and
- » reduced revenue projections for Places Victoria due to the subdued property market.

The Committee understands that these items affected the sector's performance through less-than-expected sales of goods and services revenue. However, entities' annual reports and responses to the Committee's questionnaire do not provide a clear link between items in the entities' accounts and items in the Annual Financial Report. The Committee has been able to assume some links,¹⁷⁸ however, other items remain less clear.¹⁷⁹ Links assumed by the Committee have helped inform the discussion in the following sections.

Annual reports for metropolitan water entities show that returns to customers (which are in addition to price freezes¹⁸⁰), resulting from the later-than-anticipated commissioning of the Victorian Desalination Plant, resulted in negative revenue items of:

- » \$35.5 million for Yarra Valley Water;¹⁸¹
- » \$44.6 million for South East Water;¹⁸² and

172 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.58

173 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.42

174 Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.81

175 Which is made up of the general government sector and the public non-financial corporations sector.

176 Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.89

177 *ibid.*, pp.37-8

178 For example, between 'rendering of services' (Yarra Valley Water, *Annual Report 2012-13*, p.40) and 'sale of goods and services'.

179 For example, 'Government project reimbursement revenue' (V/Line, *Annual Report 2012-13*, p.53)

180 For example, Yarra Valley Water, 'Latest info on desalination plant refunds', <www.yvw.com.au/Home/Youraccount/Returnoffunds/index.htm>, accessed 27 February 2014

181 Yarra Valley Water, *Annual Report 2012/13*, p.40

182 South East Water, *Annual Report 2012-13*, p.52

» \$23.8 million for City West Water.¹⁸³

Melbourne Water returned \$14.8 million to the retail water businesses '*in relation to the early recovery of desalination plant costs in 2011/12*'.¹⁸⁴ As this payment forms a transfer between entities within the sector, it does not affect the total revenue from sales of goods and services.

However, the total amount anticipated by water entities for this repayment is not clear. City West Water advised the Committee that its original budget estimate for this repayment was \$32.8 million.¹⁸⁵ South East Water had not anticipated the payment,¹⁸⁶ although it commented that '*the Desalination returns are fully offset by a reduction in expenditure associated with bulk charges*'.¹⁸⁷ Yarra Valley Water did not identify a variation between the amount it had anticipated and the actual amount returned, which suggests that it may not be significantly different to the actual amount.¹⁸⁸

FINDING: Revenue from sales of goods and services for the public non-financial corporations sector for 2012-13 was \$4.9 billion, \$529.6 million below the level anticipated in the 2012-13 budget papers. Information contained in the 2012-13 Budget Update suggests this was largely a result of water price freezes, the rescheduled *Connections Project* and a subdued property market.

Grants

Grants income for the PNFC sector was \$2.7 billion,¹⁸⁹ which was \$18.1 million (0.7 per cent) more than anticipated in the 2012-13 budget papers.¹⁹⁰

The bulk of this variance was within Goulburn-Murray Water. It has advised the Committee that grants revenue exceeded expectations by \$15.9 million, and that:¹⁹¹

The variance reflects a change of timing and accounting treatment of Grants associated with the Connections Project.

FINDING: Grants revenue for the public non-financial corporations sector for 2012-13 was \$2.7 billion, which was slightly more than the amount anticipated in the 2012-13 budget papers. The variance was primarily a result of timing adjustments in the *Connections Project*.

183 City West Water, *Annual Report for the Year Ended 30 June 2013*, p.40

184 Melbourne Water, *Annual Report 2012-13*, p.89

185 City West Water, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.8

186 South East Water, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.8

187 *ibid.*

188 Yarra Valley Water, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.8

189 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.58

190 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.42

191 Goulburn-Murray Water, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.8

Other items of revenue

The balance of revenue for the PNFC sector is made up of ‘interest’, ‘dividends’¹⁹² and ‘other revenue’.¹⁹³ Overall, these totalled \$681.9 million, which was \$67.8 million (9.0 per cent) below the amount anticipated in the 2012-13 budget papers.¹⁹⁴

The contribution of dividends was \$64.4 million more than anticipated.¹⁹⁵ This is explained by the more-than-expected dividend received by the SECV from Snowy Hydro Limited. As mentioned in Section 3.2.3, the Commission received dividends of \$133.4 million which was \$63.8 million more than had been anticipated in initial budget estimate.¹⁹⁶

The contribution from ‘other revenue’ was \$460.6 million,¹⁹⁷ which was \$133.7 million less than anticipated in the 2012-13 budget papers.¹⁹⁸ ‘Other revenue’:¹⁹⁹

... includes non-property rental, fines, assets received free of charge, royalties, donations and other miscellaneous non-operating revenue.

V/Line received \$29.2 million as ‘trains received free of charge’.²⁰⁰ The Department of Transport, Planning and Local Infrastructure explained that ‘V/Line does not budget for trains received free of charge’.²⁰¹ However:²⁰²

This is classified as a value in kind transaction in the financial statements of V/Line. An expense of the same amount is also recorded in the operating statement.

In addition, the metropolitan water businesses receive assets from developers as part of network expansions. The Committee understands that relevant revenue items²⁰³ contribute to fair value of assets received below their value, and therefore to ‘other revenue’ in the Annual Financial Report. Revenue from developers fluctuates according to economic conditions, and for 2012-13, one of the water entities reported revenue that was more than expected²⁰⁴ and two reported less-than-expected revenue.²⁰⁵

192 While this item is known as ‘dividends’ in the budget papers (Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.42), it is referred to in the Annual Financial Report as ‘dividends and income tax equivalent and rate equivalent revenue’, (Department of Treasury and Finance, *2012-13 Financial Report*, October 2013 p.58).

193 This is referred to in the budget papers as ‘other current revenue’ (Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.42), and the Annual Financial Report as ‘other revenue’ (Department of Treasury and Finance, *2012-13 Financial Report*, October 2013 p.58).

194 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.42

195 *ibid.*; Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.58

196 State Electricity Commission of Victoria, response to the Committee’s 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, pp.5-6

197 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.58

198 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.42

199 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.39

200 V/Line, *Annual Report 2012-2013*, p.53

201 Department of Transport, Planning and Local Infrastructure, response to the Committee’s 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.43

202 *ibid.*

203 These are included in various items such as ‘developer contributed assets’, ‘new customer contributions’, ‘gifted assets’, ‘area contributions’.

204 Yarra Valley Water reporting \$3.1 million more than anticipated (Yarra Valley Water, response to the Committee’s 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.8)

205 South East Water reporting \$7.4 million less than anticipated (South East Water, response to the Committee’s 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.8) and City West Water reporting \$4.4 million less than anticipated (City West Water, response to the Committee’s 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.8).

FINDING: Other items of revenue for the public non-financial corporations sector totalled \$681.9 million. This was \$67.8 million below the amount anticipated in the 2012-13 budget papers. A \$64.4 million more-than-expected dividend from Snowy Hydro Limited was offset by \$133.7 million less than anticipated in 'other revenue' (known as 'Other current revenue' in the budget papers).

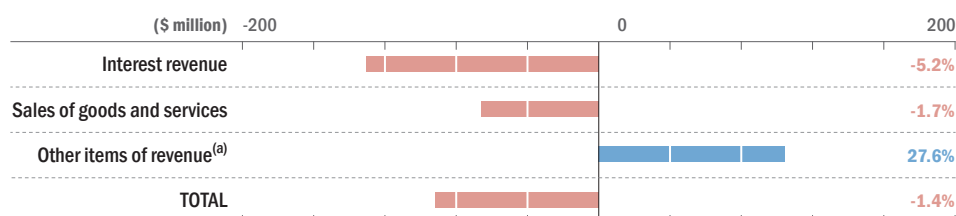
3.4

Public financial corporations sector

Revenue reported in the Annual Financial Report for the public financial corporations (PFC) sector was \$6.6 billion in 2012-13, which is an increase of \$56.2 million (0.9 per cent) from 2011-12.²⁰⁶ This was \$91.7 million (1.4 per cent) below the amount anticipated in the 2012-13 budget papers.²⁰⁷ This is shown in Figure 3.5.

Figure 3.5

Variances between budget estimates and actual results, revenue components, public financial corporations sector, 2012-13



(a) 'Other items of revenue' includes: 'grants'; 'dividends and income tax equivalent and rate equivalent revenue'; and 'other revenue'.

Sources: Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.57; Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.59.

Components of revenue for the PFC sector are included in Appendix A3.1.3.

Figure 3.5 shows that there was less revenue than expected for interest and sales of goods and services, and more revenue than expected for 'other items of revenue'. However, the Annual Financial Report does not provide commentary on these variances.

FINDING: Revenue for the public financial corporations sector was \$6.6 billion in 2012-13, which was \$91.7 million (1.4 per cent) below the amount anticipated in the 2012-13 budget papers.

206 Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.59

207 Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.57

3.5

Reconciling entity and sector results

For stakeholders to understand the financial results in the Annual Financial Report, it is necessary to understand agencies' individual contributions.

However, entities in the non-general government sectors present financial statements that are not comparable in all respects with the Annual Financial Report.

The principal example of this relates to entities in the PFC sector and their reporting of gains or losses on financial assets as part of their operating income.²⁰⁸ However, the Annual Financial Report includes such items as 'other economic flows included in the net result', which is separate from operating revenue (revenue from transactions).²⁰⁹

The Committee understands that this difference in presentation is consistent with the difference between accounting standard requirements for whole of government financial reporting, which applies to the Annual Financial Report, and all other entities, which applies to public financial corporations.

This difference means that changes in the value of some financial assets held, resulting in a gain or loss, are not included in operating revenue for whole of government reporting. On the other hand, these gains and losses are included in operating revenue for public financial corporations.

The principal cause of fluctuations in results for entities in the PFC sector is investment performance. The improved investment performance during 2012-13 over the previous year is characterised by the following:

- » Actual return for the Victorian WorkCover Authority (16.0 per cent) being more than expected (7.8 per cent) was the primary reason for the variance of \$836 million (110 per cent) above budget for investment income.²¹⁰ This income (\$1.6 billion) includes net gains in the fair value of investments of \$1.2 billion.²¹¹ The Authority explained that this was:²¹²

... a result of favourable conditions experienced in the investment markets. The budgeted investment credit is based on a rate consistent with the long-term investment return objective, i.e. 4% above AWE [average weekly earnings].

- » The Transport Accident Commission advised the Committee that its investment revenue was \$1.2 billion, which was \$616 million (106 per cent) more than anticipated.²¹³ This includes net gains on investments of \$906.2 million.²¹⁴ The Commission explained that:²¹⁵

208 For example, Treasury Corporation of Victoria, *2012/13 Annual Report*, p.33

209 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.59

210 Victorian WorkCover Authority, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, p.7

211 WorkSafe Victoria, *Annual Report 2013*, p.52

212 Victorian WorkCover Authority, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, p.7

213 Transport Accident Commission, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, p.6

214 Transport Accident Commission, *Annual Report 2013*, p.34

215 Transport Accident Commission, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, p.6

The TAC [Transport Accident Commission] investment portfolio benefited from the strong performance in global equity markets and recorded a return of 15.5% for 2012-13, compared to a budgeted long term investment return of 7.5%. ... The investment return above the budgeted return has had a favourable impact on TAC's operating result.

- » Investment income (before fees) for the Victorian Managed Insurance Authority (VMIA) was \$231.1 million, which was \$110.9 million (92 per cent) more than anticipated.²¹⁶ The investment income figure includes net gains in the fair value of investments of \$172.9 million.²¹⁷ The Authority advised the Committee that the excess over target was because:²¹⁸

... the actual performance of VMIA's investment portfolio is driven by market performance while the budget is based on VMIA's expected long term investment return objective of Average Weekly Earnings +3.5%.

The Committee notes that the above better-than-anticipated investment outcomes affect the item 'net gain/(loss) on financial assets or liabilities at fair value' in the Annual Financial Report. This gain on assets was \$3.2 billion for 2012-13.²¹⁹ This was \$2.4 billion more than the amount anticipated in the 2012-13 budget papers (\$815.5 million).²²⁰

The above net gains on the fair value of investments reported by the respective entities as part of their operating profit are significant. This reporting can be complicated by combining items such as interest, dividend revenue and operating profit. This highlights difficulties that can arise for stakeholders when attempting to reconcile information on public financial corporations presented in the Annual Financial Report and the equivalent data disclosed in those corporations' annual financial statements. The budget papers do alert readers to this issue through inclusion of the following explanatory note to the forecast operating statement for public financial corporations:²²¹

Capital gains on the investment portfolios of the State's insurance agencies (Victorian Workcover Authority, Transport Accident Commission and Victorian Managed Insurance Authority) are classified as other economic flows. As these capital gains are available to fund claims expenses, the net result provides a more meaningful reflection of the underlying operating performance of the PFC [public financial corporations] sector than the net result from transactions.

216 Victorian Managed Insurance Authority, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, p.6

217 Victorian Managed Insurance Authority, *Annual Report 2013*, p.56

218 Victorian Managed Insurance Authority, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, p.6

219 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.59. These are the sum of realised and unrealised gains.

220 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.57

221 *ibid.*, p.58

3.6

Revenue foregone

3.6.1

Concessions and subsidies

Concessions can take the form either of a direct payment from the Government, or a reduction in charges that reduce the cost of a particular good or service for entitled groups of consumers.

The initial estimate for concessions for 2012-13 was \$1.5 billion.²²² A revised estimate of \$1.6 billion was included in the 2013-14 budget papers.²²³

Appendix A3.3 sets out concessions as reported by departments and other entities for the year. Concessions reported were \$1.6 billion, which was \$101.2 million (6.7 per cent) more than anticipated in the budget papers for the year.

FINDING: Concessions and subsidies for 2012-13 totalled \$1.6 billion. This was \$101.2 million more than was anticipated for the year.

The Department of Education and Early Childhood Development provides a concession for people undertaking subsidised training in qualifications up to and including Certificate IV level, as well as all Indigenous students. This program provided \$20.1 million (126 per cent) more subsidies than was anticipated. The Department advised the Committee that this was due to the expected level being calculated using ‘*the previous planned purchase model for subsidised training*’.²²⁴ The Department commented that:²²⁵

Following the change to a demand driven student entitlement there has been a significant increase in training delivery and the associated cost of concession reimbursement. The value of appropriation for concession reimbursement has since been increased.

The Department of Transport, Planning and Local Infrastructure provides a subsidised registration fee for heavy vehicles for primary producers. While the Department anticipated that this would cost \$4.7 million for 2012-13, the final figure was reported as \$29.7 million.²²⁶ The Department commented that this was ‘*due to the assumptions used in the estimate figure*’.²²⁷ The Committee notes that a similar variance occurred in 2011-12, with an expected expenditure of \$9.4 million and an actual expenditure of \$25.6 million.²²⁸ The Committee anticipates there will be a greater alignment between budgeted and actual figures for this program in future years.

²²² *ibid.*, p.194

²²³ Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.203

²²⁴ Department of Education and Early Childhood Development, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 12 November 2013, p.22

²²⁵ *ibid.*

²²⁶ Department of Transport, Planning and Local Infrastructure, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.46

²²⁷ *ibid.*

²²⁸ Department of Transport, response to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire, received 7 February 2013, p.44

3.6.2

Tax expenditures

Tax expenditures reduce amounts received by the Government through the tax collection system. These expenditures are provided to certain taxpayers and types of assets or activities. They normally take the form of reduced tax rates or tax exemptions.

Appendix A3.4 shows that tax expenditures for the year were \$6.3 billion, which is \$314 million (5.2 per cent) more than anticipated.²²⁹

The bulk of this more-than-anticipated expenditure was in 'other stamp duties'. Expenditure in this group of five categories was \$699 million, \$345 million (97.5 per cent) above the expected \$354 million for the year.²³⁰ DTF advised the Committee that:²³¹

The variance is driven by higher than expected stamp duty exemptions for corporate reconstructions.

FINDING: Tax expenditures during 2012-13 totalled \$6.3 billion. This was \$314 million more than anticipated for the year.

229 Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, pp.18-21. Note also that this source provides data as millions of dollars with no decimal place.

230 Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, p.20

231 *ibid.*

4.1

Introduction

As discussed in Section 2.2.2 of this report, the Government requires borrowings where the funding available from other sources for direct asset investment is insufficient. The amount of money owing as a result of these borrowings is added to amounts unpaid from previous years to form a total level of 'borrowings' at any point in time. Amounts that the Government will have to pay through public private partnerships under finance lease arrangements are also included in the total borrowings measure.

Another important indicator of the Government's debt position is 'net debt', which looks at borrowings, but subtracts certain financial assets (primarily cash and items that can be easily converted to cash).

Borrowings and net debt increased during 2012-13. At 30 June 2013, the general government sector had borrowings of \$31.3 billion and net debt of \$19.8 billion. At 30 June 2013, the public non-financial corporations sectors had borrowings of \$16.2 billion and net debt of \$14.8 billion (see Table 4.1).

Table 4.1

General government sector and PNFC net debt, borrowings and liabilities, 30 June, 2012 and 2013 (\$ billion)

	General government sector		PNFC sector	
	2012	2013	2012	2013
Net debt	15.2	19.8	9.4	14.8
Borrowings	22.4	31.3	10.9	16.2
TOTAL LIABILITIES	66.1	68.7	22.0	27.3

Source: Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.60

Additionally, the Government is committed to funding the defined benefit superannuation scheme. At 30 June 2013, the superannuation liability was \$25.1 billion.²³²

For the general government sector, total liabilities²³³ rose from \$66.1 billion to \$68.7 billion in 2012-13. For the PNFC sector, total liabilities rose from \$22.0 billion to \$27.3 billion (see Table 4.1).

Table 4.1 shows net debt, borrowings and liabilities in the general government sector and the PNFC sector at 30 June for 2012 and 2013.

In examining the Government's debt, borrowings and liabilities, this chapter seeks to answer the following:

- » How does the borrowing process work in Victoria? (Section 4.2)
- » What are the trends in the levels of borrowings and net debt? (Section 4.3)

²³² Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.27

²³³ Total liabilities include 'deposits held and advances received', 'payables', 'borrowings', 'employee benefits', 'superannuation' and 'other provisions'.

- » What were the main factors driving the changes in net debt, borrowings and liabilities in 2012-13? (Section 4.4)
- » How do the actual results for 2012-13 compare to the Government's targets? (Section 4.5.1)
- » What do these results indicate about the fiscal sustainability of the State? (Section 4.5.2)

4.2

The borrowing and lending process

In order to assist in analysis and reporting, the Government's controlled entities are divided into three sectors:²³⁴

- » the general government sector, which comprises 204 departments and agencies that provide services with charges significantly below cost or with no charge;
- » the public non-financial corporations (PNFC) sector, comprising 78 entities that provide goods and services in a competitive market, charging prices on a commercial basis, including services such as water, housing and transport; and
- » the public financial corporations (PFC) sector, formed by seven entities whose primary role is to provide financial services such as loans, deposits and insurance.

As seen in Chapter 2, the State's financial report covers all three sectors. One of the major sources of funding for the Government is the PFC sector. The Treasury Corporation of Victoria (TCV) is the central funding authority and financial adviser to Government departments and to the Treasurer of Victoria.²³⁵

TCV provides loans to public entities by issuing government-guaranteed bonds that are sold in domestic and international markets. As part of this process, public entities from the PNFC sector and the general government sector pay back their loans through deposits made to TCV (see Figure 2.1 of this report, which shows the interaction amongst the three sectors).

Between June 2012 and June 2013, loans made by TCV increased by 12.4 per cent to \$38.9 billion while deposits made to TCV decreased by 12.1 per cent to \$5.8 billion (see Table 4.2).²³⁶

Table 4.2

Treasury Corporation of Victoria, loans and deposits, 2011-12 to 2012-13 (\$ billion)

	Loans		Deposits	
	2012	2013	2012	2013
General government sector	22.4	25.7	1.9	1.9
Other public entities ^(a)	12.2	13.2	4.7	3.9
TOTAL	34.6	38.9	6.6	5.8

(a) Includes PNFC, PFC sector entities and also some non-controlled public sector entities (e.g. Universities) (not part of the State of Victoria).

Source: Treasury Corporation of Victoria, *2012/13 Annual Report*, p.54

234 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, pp.198-204

235 Treasury Corporation Victoria, *2012/13 Annual Report*, August 2013, p.2

236 *ibid.*, p.54

FINDING: Loans made by the Treasury Corporation of Victoria increased by \$4.3 billion between 2011-12 and 2012-13.

4.3

Trends in borrowings, debt and liabilities

4.3.1

General government sector

The general government sector had a net debt of \$19.8 billion at 30 June 2013, up 30.1 per cent from \$15.2 billion at 30 June 2012.²³⁷ This outcome is \$883.4 million less than the 2012-13 budget estimate of \$20.7 billion.²³⁸ The Government has indicated that this variance *'was due to higher than expected net result from transactions and lower than estimated capital expenditure since the original budget was published.'*²³⁹

Borrowings for the general government sector between 2012 and 2013 increased from \$22.4 billion to \$31.3 billion.²⁴⁰ This result is in line with the Government estimate of \$31.8 billion in the 2012-13 budget papers.²⁴¹ The major difference between the growth in net debt and borrowings is the Victorian Desalination Plant, which added \$4.3 billion to borrowings to the general government sector but nothing to net debt as it forms part of the net debt of the PNFC.²⁴² This is due to its specific back-to-back arrangements with Melbourne Water (see Section 4.4.1).²⁴³ Other public private partnership (PPP) agreements, which were not expected to be commissioned in 2012-13, also had an impact on the level of borrowings (see Section 4.4).

FINDING: General government sector net debt increased to \$19.8 billion in 2012-13, \$883.4 million less than expected. The sector's borrowings increased to \$31.3 billion over the same period, \$422.3 million less than the budget estimates.

4.3.2

Public non-financial corporations sector

The PNFC sector's net debt increased by 57.5 per cent from \$9.4 billion to \$14.8 billion in 2012-13.²⁴⁴ As indicated by the Government, when explaining movements in net debt for the general government sector and the PNFC sector, the *'increase in net debt reflects the substantial investment in new infrastructure, including the desalination plant finance lease liability of \$4.3 billion...'*²⁴⁵

237 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.60

238 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.7

239 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.120

240 *ibid.*, p.60

241 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.7

242 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.19

243 *ibid.*, p.5

244 *ibid.*, p.60

245 *ibid.*, p.19

Borrowings for the PNFC sector increased to \$16.2 billion at 30 June 2013. This is an increase of 49.5 per cent compared to the 2012 position of \$10.9 billion.²⁴⁶ For the PNFC sector, the \$4.3 billion liability for the Victorian Desalination Plant is recognised in net debt as well as borrowings.

Both outcomes for the PNFC sector's net debt and borrowings are in line with the Government's estimates in the 2012-13 Budget.

FINDING: Net debt for the public non-financial corporations sector increased from \$9.4 billion to \$14.8 billion in 2012-13. The sector's borrowings increased to \$16.2 billion over the same period. Both results are in line with the original budget estimates and are mainly driven by the recognition of the finance lease liability for the Victorian Desalination Plant.

4.3.3

Interest expense

The interest expense paid by the Government is primarily related to the amount of money it borrows and the interest rate. Interest expense includes the interest from the cash it borrows and finance charges on finance leases under some payments made through PPP arrangements.²⁴⁷

Between 2011-12 and 2012-13, interest expense for the general government sector increased from \$1,242.6 million to \$1,775.3 million.²⁴⁸ The special arrangements for the Victorian Desalination Plant, as mentioned in the previous section, provide that the interest expense relating to the Plant's finance lease is offset in the general government sector by a corresponding increase in interest revenue.

Similar factors influenced the increase in interest expense for the PNFC sector. Over the same period, PNFC sector interest expense grew from \$702.7 million to \$1,001.4 million.²⁴⁹

FINDING: General government sector's interest expense increased from \$1,242.6 million in 2011-12 to \$1,775.3 million in 2012-13. The public non-financial corporations sector's interest expense increased over the same period, from \$702.7 million to \$1,001.4 million.

4.4

Factors influencing levels of net debt, borrowings and liabilities

The Committee has identified the following main factors influencing the level of borrowings, net debt and liabilities:

- » public private partnership liabilities; and
- » the unfunded superannuation liability.

²⁴⁶ *ibid.*, p.60

²⁴⁷ *ibid.*, p.75

²⁴⁸ *ibid.*, p.25

²⁴⁹ *ibid.*, p.58

4.4.1

Public private partnership liabilities

Recognition of a PPP liability is included as part of the Government's borrowings (and generally also part of its net debt) once the PPP is commissioned.

At the time of the 2012-13 Budget, the Government expected finance leases of \$844.8 million to be incorporated into the general government sector's borrowings and net debt. This estimate reflected the expected commissioning of the *Peninsula Link* project during the year.²⁵⁰

The Committee notes that the Biosciences Research Centre²⁵¹ was also commissioned in 2012-13.

The *Peninsula Link* project and the *Biosciences Research Centre* project were recognised as liabilities of \$1,064.8 million in the general government sector's net debt and borrowings in 2012-13.²⁵²

The *Peninsula Link* project was completed in early 2013. Total liabilities for this project were added to the general government sector's borrowings and net debt as expected in the original budget estimates.

The 2012-13 budget estimates expected the *Biosciences Research Centre* project to be commissioned in 2011-12.²⁵³ However, its commercial acceptance was officially announced on 18 July 2012. The Victorian Government contribution to this PPP project is estimated at \$227.3 million (expressed in May 2009 dollars).²⁵⁴

Two PNFC sector projects were also commissioned in 2012-13, the *Victorian Desalination Plant* project and the *Barwon Water Biosolids Management* project.

After delayed delivery in 2011-12, the Victorian Desalination Plant was commissioned in December 2012, adding \$4.3 billion to the PNFC sector net debt after the commercial acceptance of the plant.²⁵⁵ As noted by the Committee in previous reports, the Victorian Desalination Plant's back-to-back arrangement with Melbourne Water increases the general government sector's borrowings, but has no effect on its net debt. That is, the general government sector recovers all payments made under the PPP arrangement, through money received from Melbourne Water, having a net effect of zero on the general government sector.²⁵⁶ However, it forms part of the PNFC sector's net debt and borrowings.²⁵⁷

The *Barwon Water Biosolids Management* project commenced operations in January 2013²⁵⁸ and its liability was registered as part of the PNFC sector's borrowings and net debt.²⁵⁹

250 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.48

251 The official name of the project is now *AgriBio*.

252 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.10

253 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.9

254 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.84

255 *ibid.*, p.18

256 Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes*, May 2013, p.24

257 Public Accounts and Estimates Committee, *Report on the 2013-14 Budget Estimates – Part Two*, October 2013, pp.92-3

258 Barwon Water, *2012-2013 Annual Report*, p.7

259 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.144

It is not currently possible to determine the exact financial impact of each individual PPP project on the Government's borrowings in both sectors (that is, the general government and the PNFC sectors). The Committee has recommended that the Government include in the budget papers a list of PPP projects that are expected to be commissioned during the year, along with an estimate of the contribution to each project to borrowings and net debt.²⁶⁰ In response, the Government indicated that:²⁶¹

The Government supports the additional disclosure in future budget papers of the contribution made to borrowings and net debt by public private partnership projects expected to be commissioned during the relevant budget year.

The Committee welcomes the Government's response and looks forward to this information being included in future annual reports and budget papers, with actual contributions for each commissioned project included in future annual financial reports.

FINDING: Four public private partnership projects were commissioned during 2012-13 across the general government sector and the public non-financial corporations sector. The largest contribution to borrowings and, in turn, net debt, related to the Victorian Desalination Plant which added \$4.3 billion.

4.4.2

Unfunded superannuation liability

The unfunded superannuation liability is the money that the Government owes to the beneficiaries of schemes falling within the responsibility of the Government. Beneficiaries are guaranteed a defined income for life.

The scheme is partially financed by financial assets owned by the Government. The unfunded portion comprises part of the Government's total liabilities, though not part of its net debt or borrowings. The value of the liability is calculated based on estimated payments over the lives of the beneficiaries. Payments expected in future years are discounted using the bond rate to provide a 'present value' of the liability.

The bond rate varies from year to year based on financial markets – an increase in the bond rate results in a lower present value and a decrease in the rate increases the value. Fluctuations in the bond rate in recent years have caused significant changes to the value of the superannuation liability (see Section 2.2.3 of this report).

During 2012-13, the unfunded superannuation liability decreased by 23.0 per cent to \$25.2 billion (from \$32.8 billion at 30 June 2012).²⁶² The bulk of the liability relates to the general government sector. According to the Government, the movement in the superannuation liability was '*due to increases in the bond yields that are used for valuation purposes*'.²⁶³

260 Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes*, May 2013, p.38, Recommendation 4

261 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee 115th Report on the 2011-12 Financial and Performance Outcomes, tabled 30 October 2013, p.3. Recommendation status: support.

262 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.73

263 *ibid.*, p.9

The discount rate used for valuation purposes is a long-term Commonwealth government rate. In 2013, the discount rate was 4.3 per cent, 0.9 percentage points more than the rate used in 2012.²⁶⁴

Table 4.3 shows the movements in the unfunded superannuation liability for the general government sector.

Table 4.3

General government sector unfunded superannuation liability^(a), 2012 to 2013

	2013	2012
Unfunded superannuation liability (\$ billion)	25.1	32.6
Discount rate (per cent)	4.3	3.4
Unfunded superannuation liability as a percentage of the general government sector's total liabilities (per cent)	36.6	49.3

(a) At 30 June 2013, the general government sector unfunded superannuation liability was 99.7 per cent of the total unfunded superannuation liability of the State.

Source: Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, pp.9, 74

The Government's strategy for the unfunded superannuation liability is discussed in Section 4.5.1.

FINDING: The present value of the unfunded superannuation liability for the general government sector decreased during 2012-13 by \$7.5 billion to \$25.1 billion, primarily due to the use of a higher discount rate for valuation purposes. In 2012-13, this liability is 36.6 per cent of the sector's total liabilities.

4.5

Fiscal sustainability of debt and borrowings

4.5.1

The Government's medium-term fiscal strategy

As part of its medium-term fiscal strategy (see Section 2.7 of this report), the Government has adopted the following two targets in relation to net debt and superannuation:²⁶⁵

- » to reduce general government net debt as a percentage of GSP (gross state product) over the decade to 2022; and
- » to fully fund the unfunded superannuation liability by 2035.

Net debt

As seen in Section 4.3.1, general government sector net debt was \$19.8 billion. This equates to 5.7 per cent of GSP. This result was 1.1 percentage points higher than the level in 2011-12 due to the growth in net debt.

²⁶⁴ *ibid.*, p.74

²⁶⁵ Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.9

The 2012-13 result is 0.4 percentage points below the level forecast in the 2012-13 Budget, as net debt was lower than the year's estimate of \$20.7 billion and GSP was higher than expected.²⁶⁶

Superannuation

As noted in Section 4.4.2, the unfunded superannuation liability is one of the main factors driving change to the Government's total liabilities. This liability for the general government sector decreased by \$7.5 billion in 2013 (from \$32.6 billion to \$25.1 billion).

Although there are a number of variables factored into each year's actuarial calculation of the superannuation liability, including wages growth, the inflation rate²⁶⁷ and the number of beneficiaries, the discount rate has had the main impact in the short-term valuation of this liability in recent years.

The Committee notes that the discount rate only affects the present value of the superannuation payments required from Government funds. It therefore does not necessarily equate with the actual cash flows required to fund the unfunded portion of the superannuation liability. As indicated by the Government:²⁶⁸

It is important to note that changes in the superannuation liability that are attributable to bond rate movements do not impact the amount of cash required to fund the liability over time.

In relation to 2012-13, the Government explained that:²⁶⁹

The Government continues to take action toward fully funding the unfunded superannuation liability by 2035 and any increase in the superannuation liability that arises solely due to movements in the discount rate does not affect this.

The Committee recognises that the Government's target is long-term in nature. However, it considers that it is not possible to assess the progress towards this target based only on the superannuation liability revaluation outcome in a single year. It is of the view that the Government should progressively disclose in its Annual Financial Report the main elements of the strategy it has in place to achieve the full funding target by the specified date. This disclosure could be complemented by some of the significant assumptions underpinning periodic actuarial computations of the superannuation liability.

4.5.2

Fiscal sustainability indicators

As defined by the Auditor-General, '*sustainable debt is the level of debt that can be repaid while balancing factors such as economic growth, interest rates, and the state's capacity to generate surpluses in the future.*'²⁷⁰

266 GSP forecast in the 2012-13 Budget was \$340.3 billion; GSP revised figure was \$344.7 billion.

267 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.20

268 Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.23

269 *ibid.*, p.31

270 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2012-13*, November 2013, p.15

In addition to the Government's indicator for the general government sector 'net debt as a percentage of GSP' (see Section 4.5.1), the Committee uses two further indicators to analyse the sustainability of public finances on a State-wide basis, that is, extending beyond the general government sector:

- » operating result (or net operating balance), that is, the difference between revenue and output expenditure; and
- » net lending/borrowing indicator, where a lending position shows that the Government has more money than it needs to spend, and a borrowing position would show the opposite.

Operating result

As discussed in Chapter 2 of this report, the operating result for the general government sector in June 2013 was a surplus of \$316.4 million, while the PNFC sector recorded a deficit of \$298.2 million and the PFC a deficit of \$978.5 million.

The Committee notes that the three sectors suffered a drop in their operating surpluses during the Global Financial Crisis, particularly for the general government sector in 2008-09, with a slight recovery in 2009-10. From 2010-11 to 2012-13, the PNFC sector has experienced a constant decline of its operating results to a deficit of \$298.2 million in 2012-13. The general government sector has maintained a relatively steady level, with a surplus of \$316.4 million in 2012-13. The three sectors recorded a decrease in their operating results between 2011-12 and 2012-13, the general government sector dropping by \$254.8 million and the PNFC sector moving into a deficit position of \$238.5 million. The PFC sector has also experienced a constant decline of its operating surplus from 2007-08 to 2012-13.

As part of the relationship between the general government sector, the PNFC sector and the PFC sector, the latter two provide the general government sector with revenue in the form of dividends. The Government also receives some dividends from outside the Victorian public sector.

The general government sector's revenue from dividends was \$1,341.7 million in 2012-13 (\$939.1 million in 2011-12).²⁷¹ In 2012-13, dividends from the PFC sector were \$440.7 million (\$353.4 million in 2011-12) and dividends from the PNFC sector were \$720.3 million (\$305.9 million in 2011-12).²⁷² Dividends are discussed in detail in Chapter 3 of this report.

Net lending/borrowing

The net lending/borrowing indicator is part of the Government's key fiscal aggregates.²⁷³ As defined in the State's Annual Financial Report, *'the net borrowing measure [net lending/borrowing indicator] broadly reflects the net impact of the general government sector on the economy and financial markets, including the impact of operating and capital investing transactions'*.²⁷⁴

271 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.25

272 *ibid.*, p.69

273 *ibid.*, p.26

274 *ibid.*, p.4

The Committee notes that the general government sector and the PNFC sector have maintained a net borrowing position since 2007-08. With the exception of 2007-08, the PFC sector has also maintained a net borrowing position over the same period.

The general government sector's net borrowing position moved by an additional \$657.1 million, from \$-1.7 billion in 2011-12 to \$-2.4 billion in 2012-13. According to the Government, this result is '*in line with revised budget expectations [\$-2.3 billion]... reflecting the Government's commitment to infrastructure investment to meet community needs*'.²⁷⁵ Table 4.4 shows the movements in the net borrowing position and net infrastructure investment for the general government sector between 2011-12 and 2012-13, including the 2012-13 budget estimate.

Table 4.4

General government sector net infrastructure investment and net lending/borrowing, 2011-12 to 2012-13 (\$ million)

	2011-12 actual	2012-13 Budget	2012-13 actual
Net infrastructure investment	5,228.9	5,794.3	5,202.0
Net lending/(borrowing)	-1,710.5	-1,281.3	-2,367.6

Source: Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, pp.62, 58; and Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, pp.6, 236

FINDING: The general government sector increased its net borrowing position in 2012-13 by \$657.1 million.

Victoria's credit rating

The two agencies that provide the creditworthiness assessment for the State, Standard & Poor's and Moody's Investors Service, confirmed their triple-A credit rating and stable outlook for Victoria following the release of the *2012-13 Financial Report* for the State. With these assessments, the State of Victoria remains as the only state in Australia with both a triple-A credit rating and stable outlook.²⁷⁶

In its credit rating assessment, Standard & Poor's noted that:²⁷⁷

We consider Victoria's financial management to be very supportive of the state's creditworthiness. It has continued to demonstrate fiscal discipline through its response to ongoing revenue challenges. The government has made difficult political decisions, including containing wage growth and reducing the number of public servants

...

Downward pressure on the rating would occur if there is further weakening in the state's revenues without corrective action from the government, worsening its budgetary performance.

²⁷⁵ *ibid.*

²⁷⁶ *ibid.*, p.3

²⁷⁷ Standard & Poor's, 'Ratings on Australian State of Victoria Affirmed at AAA/A-1+; Outlook Remains Stable', 7 November 2013, pp.2, 4

Moody's Investors Service included the following assessment:²⁷⁸

The state's financial performance weakened in 2008/09, when it moved into a deficit position (net borrowing result). In the interim period, deficits have persisted due to less robust revenue growth, while current and capital spending remained elevated. As a result, the state's debt burden, while remaining manageable, has risen sharply.

....

A loosening in the government's resolve to constrain expenditure growth to the degree necessary to bring the budget back into balance as planned and the associated constraint in debt accumulation could result in downward pressure on the rating.

FINDING: Standard and Poor's and Moody's Investors Service have maintained their triple-A credit rating and stable outlook for the State of Victoria after the release of the State's 2012-13 *Financial Report*.

278 Moody's Investors Services, 'Credit Analysis: Victoria (State of Australia)', 5 December 2013, pp.1-2

5.1

Introduction

Output expenditure is the cost of goods and services delivered by the Government. It includes employee expenses, costs associated with superannuation, depreciation costs, interest expenses, grants, and transfers to other government entities outside the general government sector or bodies outside the public sector.

The general government sector's output expenditure was \$48,296.4 million in 2012-13, increasing by 2.1 per cent compared with the previous year.²⁷⁹

Entities in the general government sector spent just \$94.6 million (0.2 per cent) more in 2012-13 compared to what was planned in the 2012-13 budget papers. There were significant differences between the budget estimates and the actual expenditure for particular items. There were also a number of differences between what the money was anticipated to be spent on and what it was actually spent on. These differences were also noted in the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector.

The Committee has addressed departmental output performance measures in its recent report on Victoria's performance measurement and reporting system.²⁸⁰

In analysing output expenditure in 2012-13 for the three sectors of Government in Victoria, this chapter analyses:

- » How did the actual goods and services provided by the general government sector in 2012-13 compare to what had been planned? (Section 5.2)
- » What factors influenced the level of employee expenses in 2012-13? (Section 5.3)
- » How did the components of expenditure for the PNFC sector and the PFC sector perform against expectations? (Section 5.4 and Section 5.5)

5.2

Goods and services provided

5.2.1

General government sector

The general government sector's total expenses from transactions increased by 2.1 per cent between 2011-12 and 2012-13 to \$48.3 billion. Revenue increased 1.5 per cent to \$48.6 billion over the same period. Table 5.1 shows that output expenditure has increased by \$12.6 billion, or an annual average of 6.2 per cent, between 2007-08 and 2012-13.

The actual growth in output expenditure in 2012-13 of 2.1 per cent was less than the forecast level of 3.1 per cent.²⁸¹

279 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.25

280 Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System*, March 2014.

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

Table 5.1

General government sector output expenditure, 2007-08 to 2012-13

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Total output expenditure (\$ billion)	35.7	39.0	43.9	45.5	47.3	48.3
Total revenue annual growth rate (per cent)	-	9.4	12.6	3.6	4.0	2.1
Average annual growth rate (2007-08 to 2012-13)^(a) (per cent)	6.2					

(a) Compound annual growth rate

Source: Department of Treasury and Finance, 'Consolidated Balance Sheet 2012-13' data set, <www.dtf.vic.gov.au/files/3bcd25d2-d953-46e7-82bd-a25801019c36/Consolidated-GG-Balance-Sheet-2012-13.xlsx>, accessed 3 February 2013

FINDING: Output expenditure in the general government sector increased by 2.1 per cent in 2012-13.

Analysis of output expenditure

The Government classifies the general government sector's expenses, in the budget papers and the Annual Financial Report, according to two different categories:

- » 'government purpose classification', which classifies expenditure in terms of government functions. It involves a series of categories developed by the Australian Bureau of Statistics, which has stated that this classification is used to '*facilitate the study of the broad function of public sector spending and the effectiveness of this spending in meeting government policy objectives*';²⁸² and
- » the output management framework in place for each department and Parliament (including the Auditor-General) which involved, in 2012-13, delivery of goods and services under 127 wide-ranging outputs.²⁸³

Expenditure by government purpose classification

The general government sector's total output expenditure in 2012-13 according to the government purpose classification is shown in Figure 5.1.

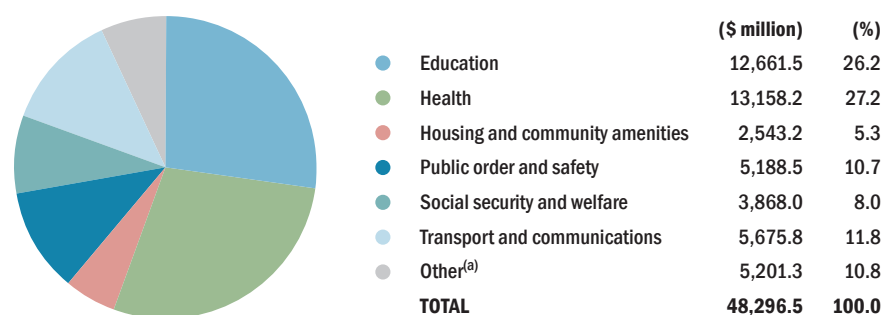
Figure 5.2 compares output expenditure in 2012-13 by government purpose classification with the budget estimates and the actual expenditure in 2011-12 (see also Appendix A5.1).

282 Australian Bureau of Statistics, *Explanatory Notes, Government Finance Statistics, 2010-11*, Catalogue Number 5512.0 <www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5512.0Explanatory%20Notes12010-11?OpenDocument>, accessed 29 January 2014.

283 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.84

Figure 5.1

Output expenditure by major government purpose classification, 2012-13

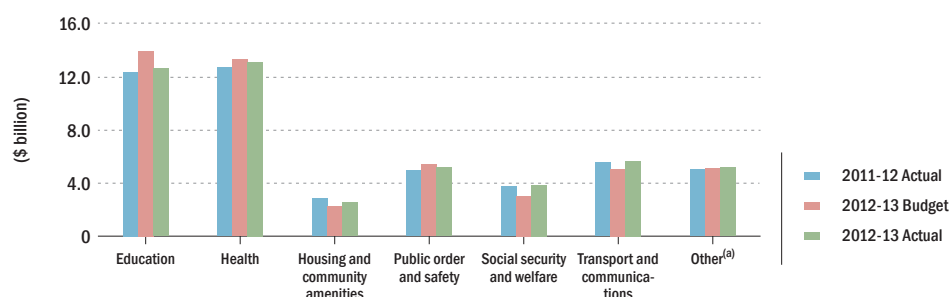


(a) 'Other' combines: 'recreation and culture'; 'fuel and energy'; 'agriculture, forestry, fishing and hunting'; 'general public services'; 'mining, manufacturing and construction'; 'other economic affairs'; and 'other purposes'.

Source: Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.77

Figure 5.2

Expenditure by government purpose classification, 2011-12 to 2012-13



(a) 'Other' combines: 'recreation and culture'; 'fuel and energy'; 'agriculture, forestry, fishing and hunting'; 'general public services'; 'mining, manufacturing and construction'; 'other economic affairs'; and 'other purposes'.

Sources: Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.77; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.29

There were three major areas where the budget papers estimated that expenditure would decrease between 2011-12 and 2012-13:²⁸⁴

- » housing and community amenities;
- » social security and welfare; and
- » transport and communications.

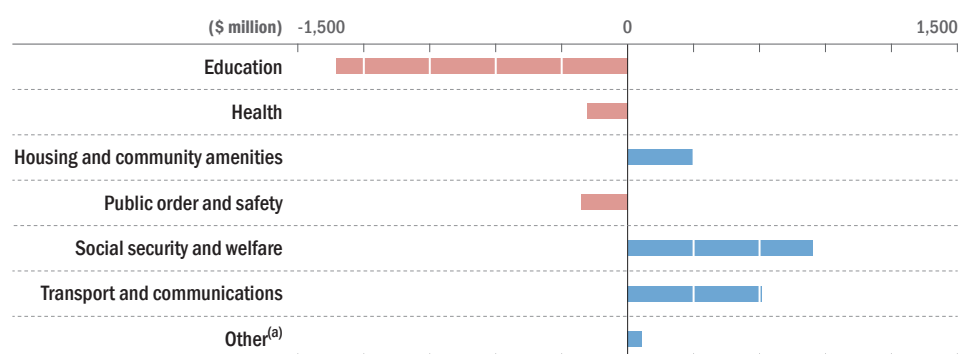
The Government has reported that expenditure only decreased for 'housing and community amenities' over this period. Expenditure in this area decreased \$325.8 million since 2011-12,²⁸⁵ compared with a forecast fall of \$621.4 million.²⁸⁶

Variations from amounts expected in the 2012-13 budget papers for expenditure by major government purpose classification areas are shown in Figure 5.3 below.

284 Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.29

285 Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.77

286 Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.29

Figure 5.3**Variances between budget estimates and actual results, output expenditure by major government purpose classification, 2012-13**

(a) 'Other' combines: 'recreation and culture'; 'fuel and energy'; 'agriculture, forestry, fishing and hunting'; 'general public services'; 'mining, manufacturing and construction'; 'other economic affairs'; and 'other purposes'.

Source: Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.77; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.29

As shown in Figure 5.3, expenditure exceeded budgets in 2012-13 in four major areas, with the most significant variances occurring in 'social security and welfare' and 'transport and communications'. Conversely, expenditure was below budgets in three areas, with education recording a below-budget position by \$1,326 million.

As noted above, the 2012-13 budget papers anticipated that expenditure in 'social security and welfare' and 'transport and communications' would fall during the year. While actual expenditure in 2011-12 would not have been known at the time of the 2012-13 Budget, the drop in expenditure based on the 2011-12 outlays was expected to be \$714.3 million and \$480.4 million respectively. Actual expenditure in the two areas, when compared with the previous year, increased by \$99.7 million and \$130.7 million respectively. (see Appendix A5.1). There were therefore wide variations here between anticipated and actual expenditure positions.

FINDING: Expenditure between 2011-12 and 2012-13 decreased only in the area of 'housing and community amenities', but by less than estimated.

FINDING: The Government estimated that expenditure would increase in the areas of 'education', 'health' and 'public order and safety' between 2011-12 and 2012-13. Increased expenditure in all these three areas did occur, but by less than estimated.

FINDING: In two areas of expenditure, 'social security and welfare' and 'transport and communications', there were wide variations between anticipated and actual expenditure, based on their actual outlays in 2011-12 and 2012-13 budgets.

The Committee approached DTF to obtain explanations for these variances. DTF explained to the Committee that:²⁸⁷

It is difficult to make detailed comparisons between the 2012-13 original budget estimates and the 2012-13 Annual Financial Report due to significant differences in the allocation methodology used across classifications for the two publications, in particular the allocation of elimination balances totalling approximately \$2 billion. For the original budget estimates, the allocation methodology uses ratios based on historical data and the impact of policy and non-policy estimate variations, whereas actual expenditure is based on actuals data fed by output that is mapped to GPCs. Going forward, enhanced and more consistent processes between publications, driven by the availability of more granular data, will help ensure that the government purpose classification (GPC) disclosures will be more comparable.

Details of DTF's explanations for variances in each area of the government purpose classification are included in Appendix A5.2.

FINDING: The Department of Treasury and Finance states that it is difficult to explain variances between budget estimates and actual results for expenses according to government purpose classifications because of different calculation methodologies. The Department of Treasury and Finance has cited the potential for more comparable disclosures in future.

Expenditure by output

A total of 127 outputs were delivered in 2012-13 with a total cost of \$43,309.1 million.²⁸⁸ This expenditure was \$166.8 million (0.4 per cent) more than the estimate provided in the 2012-13 budget papers.²⁸⁹

However, similar to the government purpose classification analysis outlined in Figure 5.3, the Committee notes that variances between the budgeted output expenditure and the actual figure occurred across outputs.

Details of outputs delivered in 2012-13 and the explanations provided to the Committee by departments for significant variances are detailed in Appendix A5.3 of this report.

Department of Education and Early Childhood Development

The Committee notes that the largest variance (in dollar terms) was the '*Higher Education and Skills*' output, where expenditure exceeded budget by \$252.7 million (10.4 per cent).²⁹⁰ The Department of Education and Early Childhood Development (DEECD) has reported that the variance was due to:²⁹¹

287 Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, p.26

288 The expenditure on outputs does not include \$4,987.4 million of expenditure which is included in total output expenditure.

289 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 2

290 Department of Education and Early Childhood Development, *Annual Report 2012-13*, p.31

291 *ibid.*, p. 31

...more people accessing training places through the Victorian Training Guarantee. Victorian Training Guarantee course funding is available to Victorians who meet a set of eligibility criteria.

The Department indicated in the 2012-13 budget papers that ‘performance measures, particularly in the Higher Education and Skills output, have been significantly reshaped to ensure they are more focused on strategic goals and key deliverables’.²⁹² These changes to the output structure included the change from the ‘Skills’ output to the ‘Higher Education and Skills’ output.

In relation to the demand for the ‘Higher Education and Skills’ output, the Department indicated in its annual report that:²⁹³

Significant growth in vocational training has occurred as a result of the introduction of the Victorian Training Guarantee in 2008. Since then the number of students enrolled in government-subsidised courses has increased by 215,000 or 73 per cent. In 2012, there were over 600,000 students participating in vocational training in Victoria, with approximately 509,000 enrolled in government-subsidised courses. According to data reported by the National Centre for Vocational Education Research, in 2012 Victoria had an overall participation rate that was higher than the national average and higher than any other state or territory.

The Committee notes that this higher than anticipated demand for vocational education has been constant in recent years. The Committee previously found that the former ‘Skills’ output experienced the largest variance (in dollar terms) in 2011-12, exceeding its budget estimate by \$468.1 million (23 per cent).²⁹⁴ The Department explained that the difference was attributed to:²⁹⁵

Higher than expected increase in VET enrolments following the first full year of implementation of the student entitlement system across all age groups and qualification levels.

FINDING: Higher than budgeted output expenditure by \$252.7 million in 2012-13 under the *Higher Education and Skills* output, managed by the Department of Education and Early Childhood Development, reflected a continuing increase in student demand for vocational training.

RECOMMENDATION 2: That the Department of Education and Early Childhood Development review its costing methodology for its *Higher Education and Skills* output to more accurately forecast related student demand.

292 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.97

293 Department of Education and Early Childhood Development, *Annual Report 2012-13*, p.45

294 Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes*, May 2013, p.50

295 Department of Education and Early Childhood Development, response to the Committee’s 2011-12 Financial and Performance Outcomes General Questionnaire, received 25 January 2013, p.2

5.3

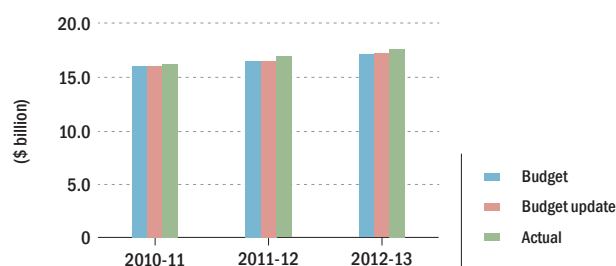
Employee expenses

The largest component of output expenditure for the general government sector is 'employee expenses', accounting for 36.8 per cent of the total output expenditure in 2012-13.²⁹⁶ These expenses include costs related to wages, redundancies, leave entitlements and superannuation.²⁹⁷

As shown in Figure 5.4, employee expenses were \$17,788.5 million in 2012-13, rising by 3.9 per cent compared to the previous year (\$17,120.1 million).²⁹⁸ This result is 3.1 per cent higher than the 2012-13 Budget estimate of \$17,257.2 million.²⁹⁹

Figure 5.4

Employee expenses estimates and actual figures, 2010-11 to 2012-13



Source: Public Accounts and Estimates Committee

The 2012-13 budget papers anticipated that employee expenses were expected to grow by 2.0 per cent reflecting 'the ongoing service delivery, the Government's wages policy and savings initiatives'.³⁰⁰ However, the budget papers also recognised that this expense might be higher by stating that:³⁰¹

Major enterprise bargaining agreements for teachers and the Victorian public service are currently being negotiated. If the related costs exceed the available funding, this will increase expenditure.

The Government has reported that employee expenses were slightly higher than its revised estimate for this key output item. It has stated that the variance to its revised estimate was related to:³⁰²

... the reclassification of expenditure to employee expenses to reflect actual service provision by hospitals, the successful recruitment outcomes for police and Protective Services Officers and employee expenses in the State's schools.

The Government has also reported that the growth since 2011-12 is related to:³⁰³

... the result of enterprise bargaining agreements, growth in frontline staff such as police, Protective Services Officers and hospital staff, voluntary departure packages payments associated with previously announced

296 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.25

297 Budget Paper No.2, *2012-13 Service Delivery*, May 2012, p.40

298 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.58

299 *ibid.*, p.116

300 Budget Paper No.2, *2012-13 Service Delivery*, May 2012, p.40

301 *ibid.*, p.52

302 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.7

303 *ibid.*

measures to manage public sector workforce growth and general wage increases.

FINDING: Employee expenses for the general government sector in 2012-13 were \$17,788.5 million, \$668.4 million (3.9 per cent) more compared to 2011-12 and \$531.3 million (3.1 per cent) more than the 2012-13 budget estimate.

5.3.1

Factors influencing employee expenses

The Committee has previously noted that the Government's policy for restraining growth in employee expenses provides that any increase in salaries over 2.5 per cent would have to be accompanied by productivity gains.³⁰⁴

The Department of Treasury and Finance (DTF) has informed the Committee that significant enterprise agreements were finalised in 2012-13, including:³⁰⁵

- » the Victorian Public Service Agreement, applicable to over 30,000 public servants, which provides a lump sum payment of \$1,500 and an increase of 3.25 per cent on 1 July 2012 and 1.25 per cent effective from 1 January 2013;³⁰⁶ and
- » health sector enterprise bargaining agreements such as the Doctors, Mental Health, Medical Scientists and Disability Services agreements, which contained a bonus payment at the commencement of the agreement.³⁰⁷

In explaining the variance between the budgeted employee expenses and the actual figure in 2012-13 (see Figure 5.4), DTF informed the Committee that:³⁰⁸

Wages policy provides for a wage guideline rate of 2.5 per cent per annum, so that the total cost of an agreement is not more than 2.5 per cent annualised. However the costs of enterprise bargaining agreements are not linear. In some cases the costs of agreements are clustered at the start of the agreement because they contain a cash sign-on bonus. DTF does not capture individual enterprise bargaining agreements in its estimates ... Instead it looks at the key drivers of employee expenses including through analysing the State's largest enterprise bargaining agreements.

Regarding the frontline service delivery, DTF indicated that the variance is 'related to the recruitment of police and Protective Services Officers [PSOs]'.³⁰⁹ Victoria Police explained in its annual report that:³¹⁰

304 Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes*, May 2013, p.60

305 Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, p.25

306 Victorian Public Service Workplace Determination 2012, July 2012, p.35

307 See for example the Victorian Public Mental Health Services Enterprise Agreement 2012-2016; and AMA Victoria-Victorian Public Health Sector Medical Specialists Enterprise Agreement 2013.

308 Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, p.25

309 *ibid.*

310 Victoria Police, *Victoria Police Annual Report 2011-12*, p.54

Salary expenditure was also impacted by the increase in PSO recruitment to take advantage of high application levels during the period. At 30 June 2013, the number of PSOs deployed was 396, which is 72 FTE [full-time equivalent] above the funded target of 324 FTE.

Victoria Police reported that salary and wages expenses increased by 6.5 per cent between 2011-12 and 2012-13, from \$1,180.3 million to \$1,256.7 million.³¹¹

FINDING: Increased employee expenses in 2012-13 were primarily driven by enterprise bargaining agreements finalised in the financial year, and the recruitment of police and protective services officers.

DTF has also explained with respect to the variance for voluntary departure packages (VDPs), within employee expenses, that while the budget estimates *‘included an allowance for the expected cost of VDPs, as the profile of VDP recipients was not known at the time of the budget, the final cost of the VDPs that was reflected in the 2012-13 financial outcome resulted in a variance to the budget time estimate.’*³¹²

The Government announced that it planned to reduce the number of public servants in non-service delivery and back-office roles by 3,600 employees under its *Sustainable Government Initiative* reform (previously referred to as *Maintain a Sustainable Public Service*).³¹³ According to the Government, the reduction in the size of the Victorian public sector workforce would be achieved *‘through natural attrition, a freeze on recruitment, the lapsing of some fixed-term positions and voluntary departure package programs’*.³¹⁴ The Government has included the VDPs as part of the efficiencies delivered by the *Sustainable Government Initiative*, which was expected to provide early savings of \$20 million in 2012-13.³¹⁵

The Department of Transport, Planning and Local Infrastructure indicated that higher than budgeted employee benefits³¹⁶ in 2012-13 were the result of *‘workforce reduction payments’*.³¹⁷ The Department indicated that *‘the published 2012-13 budget figure for employee benefits did not include a provision for workforce reduction payments. These were allocated post budget’*.³¹⁸

The Department of Planning and Community Development anticipated a \$13.7 million reduction in employee benefits between 2011-12 and 2012-13.³¹⁹ However, the Department’s employee benefits in 2012-13 were 12.7 per cent more (\$10.7 million) than the 2012-13 budget papers estimate. In explaining this variance, the Department informed to the Committee that:³²⁰

311 *ibid.*, p.124

312 Department of Treasury and Finance, response to the Committee’s 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, p.25

313 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, p.114

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

315 *ibid.*, p.124

316 Included as part of ‘employee expenses’.

317 Department of Transport, Planning and Local Infrastructure, *2012-13 Annual Report*, p.105

318 Department of Transport, Planning and Local Infrastructure, response to the Committee’s 2012-13 Questionnaire – Entity-Specific Questionnaire, received 6 February 2014, p.4

319 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.114

320 Department of Planning and Community Development, response to the Committee’s 2012-13 Questionnaire – Entity-Specific Questionnaire, received 6 February 2014, p.4

The Voluntary Departure Program (VDP) that occurred under the Sustainable Government Initiative was anticipated to reduce employee benefits in 2012-13.

The Department also explained that the decrease in the amount of money paid for employee benefits did not occur, stating that:

The published 2012-13 budget figure for employee benefits did not include a provision for workforce reduction payments. These were allocated post budget.

The Committee notes that \$127.1 million was provided from Advances to the Treasurer for 'voluntary departure packages reimbursement' in 2012-13.³²¹ DTF explained to the Committee that the Government agreed to reimburse the cost of VDPs under the *Sustainable Government Initiative*. However, as noted above, the number and cost of the VDPs were not known at the time of the preparation of the 2012-13 budget papers because VDPs 'were not known until people formally accepted the offering'.³²²

Furthermore, DTF indicated that:³²³

As VDPs are voluntary, the uptake and the profile of the VDP recipients were not known at the time of the budget. It was not appropriate to provide funding to departmental estimates. Instead, the Treasurer's Advance was utilised to provide sufficient coverage once costs materialised in departments.

Table 5.2 below shows the payments from Advances to the Treasurer related to the VDPs as reported in the Annual Financial Report.

FINDING: The Department of Treasury and Finance has indicated that the 2012-13 estimates for employee expenses for the general government sector did not include the total cost of voluntary departure packages as the number and likely profile of Voluntary Departure Program recipients was unknown at the time of the 2012-13 Budget.

FINDING: Costs totalling \$127.1 million for voluntary departure packages were incurred in 2012-13 and funded from Advances to the Treasurer before allocation to the relevant departments.

321 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, pp.170-1

322 Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, pp.25-6

323 *ibid.*, p.26

Table 5.2

Payments from Advances to the Treasurer related to voluntary departure packages reimbursement, 30 June 2013

Department	2012-13 (\$ thousand)
Education and Early Childhood Development	15,891
Environment and Primary Industries ^(a)	13,273
Health	8,341
Human Services	19,665
Justice	16,108
Justice – Victoria Police	10,232
Planning and Community Development	6,116
Premier and Cabinet	684
Primary Industries	7,700
State Development, Business and Innovation ^(a)	5,050
Transport, Planning and Local Infrastructure ^(a)	22,607
Treasury and Finance	1,479
TOTAL PAYMENTS FROM ADVANCES TO THE TREASURER	127,146

(a) Departments which were renamed due to machinery of government changes. The Department of Sustainability and Environment became the Department of Environment and Primary Industries. The Department of Business and Innovation became the Department of State Development, Business and Innovation. The Department of Transport became the Department of Transport, Planning and Local Infrastructure.

Source: Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, pp.170-1

5.4

Public non-financial corporations sector

Total expenses for the PNFC sector were \$8,550.3 million in 2012-13, which is \$273.0 million (3.3 per cent) more than the 2011-12 result,³²⁴ but \$398.6 million (4.5 per cent) less than originally estimated in the 2012-13 budget papers.³²⁵ This result is also \$288.3 million less than the amount anticipated at the time of the 2012-13 Budget Update (\$8,838.6 million).³²⁶

Total expenditure for the PNFC sector is reported in the Annual Financial Report and the budget papers according to the standard expense classifications used for the general government sector. Expenses are not classified by government purpose or by outputs. Entities in the PNFC sector (and the PFC sector) do not operate under the Government's output management framework which specifically relates only to departments and associated agencies. That framework is the key means of measuring performance by departments in their use of funds annually appropriated to them for the delivery of goods and services.

Components of expenditure for the PNFC sector are shown in Figure 5.5 below.

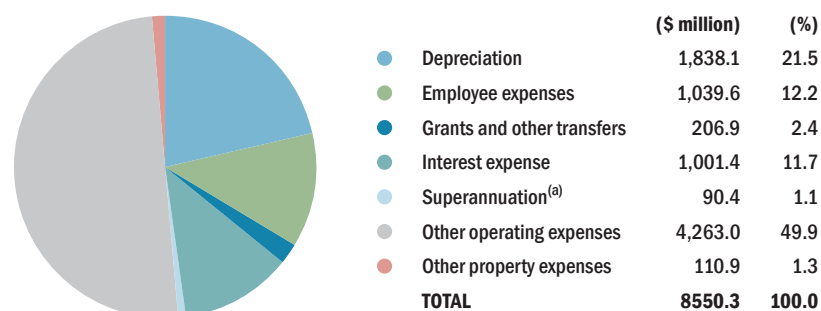
324 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.58

325 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.42

326 Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.81

Figure 5.5

Components of output expenditure, public non-financial corporations sector, 2012-13



(a) Includes superannuation interest expense and other superannuation.

Source: Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.58

The largest component of expenditure for the PNFC is 'other operating expenses'. This expense category includes purchase of supplies and consumables, and purchase of services.³²⁷

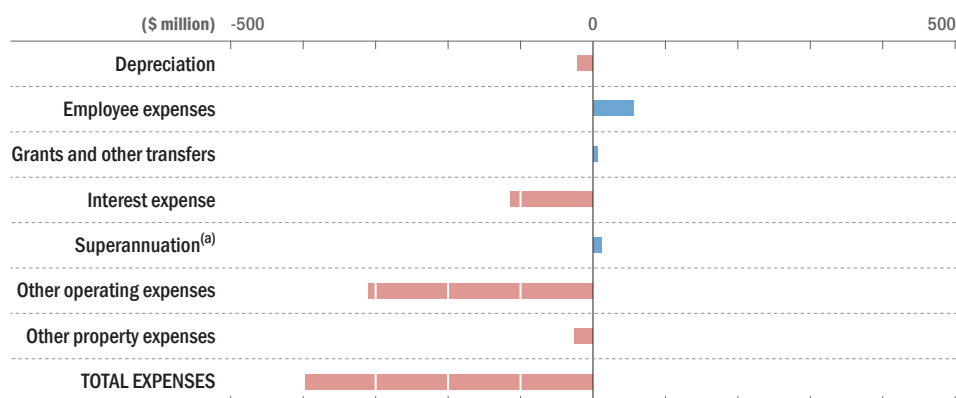
The Government indicated that the increase in aggregate expenditure for the PNFC sector between 2011-12 and 2012-13 is due to:³²⁸

- » *a significant increase in depreciation and amortisation costs associated with the large capital expenditure program, and the commissioning of the desalination plant in December 2012; and*
- » *an increase in interest expense reflecting the rise in borrowings to finance infrastructure, and interest on the finance lease for the desalination plant.*

Figure 5.6 identifies the variances between the budget estimates and actual results of the PNFC sector's expenditure components in 2012-13.

Figure 5.6

Variances between budget estimates and actual results, output expenditure, public non-financial corporations sector, 2012-13



(a) Includes superannuation interest expense and other superannuation.

Sources: Budget Paper No.5; 2012-13 Statement of Finances, May 2012, p.42; Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.58

327 Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.76

328 *ibid.*, p.15

Interest expenses

The Committee notes that interest expense for the PNFC sector increased \$298.7 million (42.5 per cent) to \$1,001.4 million between 2011-12 and 2012-13.³²⁹ However, this was \$114.8 million (10.3 per cent) less than the amount anticipated in the 2012-13 budget papers.³³⁰

As noted above, one of the significant factors in the increase in interest expense for the PNFC sector in 2012-13 was the finance expense related to the Victorian Desalination Plant. Melbourne Water's annual report indicated that finance expenses increased by 120.4 per cent, from \$249.2 million in 2011-12 to \$549.3 million in 2012-13, primarily driven by finance lease interest, generated by the Victorian Desalination Plant, of \$302.5 million in 2012-13,³³¹ whose lease commenced in November 2012.³³²

Other operating expenses

The Annual Financial Report provides explanations for the major expense movements between years. It does not, however, provide explanations for variances between the budget estimates and actual results.

In response to the Committee's survey of material entities in the sector, Melbourne Water was the only entity to provide an explanation for the variance between the budget estimates and actual results for the item 'other operating expenses' (\$23 million). Melbourne Water indicated that its lower-than-expected operating expenses were due to the '*revised operating costs of the Desalination Plant*'.³³³

The Committee notes that operational expenses for the Victorian Desalination Plant were \$86 million in 2012-13, being the first year of the plant's operations.³³⁴

The Committee considers that further disaggregation for the PNFC item 'other operating expenses', particularly at entity level, could provide a better understanding of the drivers behind the variances between estimates and actual results. A possible disaggregation could be the break-down of other operating expenses reported for the general government sector in the Annual Financial Report.³³⁵

FINDING: Total expenditure for the public non-financial corporations sector was \$8,550.3 million in 2012-13. This was \$273.0 million higher than the amount in 2011-12, but \$398.6 million less than the amount estimated in the 2012-13 budget papers.

329 *ibid.*, p.58

330 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.42

331 Melbourne Water, *Annual Report 2012-13*, p.91

332 Melbourne Water, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.9

333 *ibid.*, p.10

334 Melbourne Water, *Annual Report 2012-13*, p.90

335 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.76

FINDING: The increase in operating expenses in the public non-financial corporations sector in 2012-13 was mainly driven by interest expenses and operating expenses associated with the Victorian Desalination Plant.

RECOMMENDATION 3: The Department of Treasury and Finance provide a further disaggregation of 'other operating expenses' for the public non-financial corporations sector in the Annual Financial Report and in the budget papers to the same level as is disclosed for the general government sector.

5.5

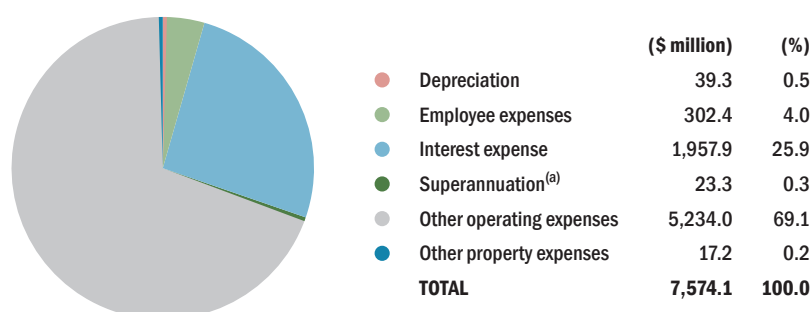
Public financial corporations sector

Total expenses for the PFC sector were \$7,574.0 million in 2012-13, which is \$94.5 million (1.3 per cent) more than 2011-12³³⁶ but \$63.6 million (0.8 per cent) less than was estimated in the 2012-13 budget papers.³³⁷

Similar to the PNFC sector's financial information included in the Annual Financial Report, total expenditure for the PFC sector is only reported through expenditure components. Components of expenditure for the PFC sector are included in Figure 5.7.

Figure 5.7

Components of output expenditure, public financial corporations sector, 2012-13



(a) Includes superannuation interest expense and other superannuation.

Source: Department of Treasury and Finance, 2012-13 *Financial Report*, October 2013, p.58

Figure 5.8 compares the variances between the budget estimates and actual results of the PFC's expenditure components in 2012-13.

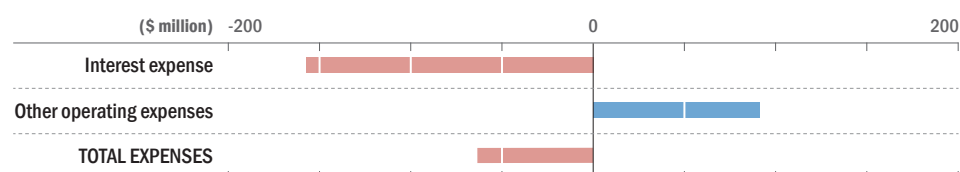
The Committee notes that 'other operating expenses' makes a significant contribution to variances in output expenditure for 2012-13 in the PFC sector. The Annual Financial Report does not disaggregate the figure for this item. As recommended for the PNFC sector, the Committee considers that further disaggregation, similar to the general government sector, would be relevant for understanding the reasons between estimates and actual results.

336 *ibid.*, p.59

337 Budget Paper No.5, 2012-13 *Statement of Finances*, May 2012, p.57

Figure 5.8

Variances between budget estimates and actual results, output expenditure, public financial corporations sector, 2012-13



Sources: Budget Paper No.5; 2012-13 Statement of Finances, May 2012, p.57; Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.59

FINDING: Total expenditure for the public financial corporations sector was \$7,574.0 million in 2012-13. This was \$94.5 million higher than the amount in 2011-12 budget papers, but \$63.6 million less than the amount estimated in the 2012-13 budget papers.

RECOMMENDATION 4: The Department of Treasury and Finance provide a further disaggregation of 'other operating expenses' for the public financial corporations sector in the Annual Financial Report and in the budget papers to the same level as is disclosed for the general government sector.

6.1**Introduction**

Victoria's annual asset investment, through building new assets and maintaining existing assets, is crucial to servicing the current and future needs of the community. It is a key means of promoting economic growth and enhanced productivity.

This chapter details and analyses the provision of assets by the Victorian Government through the general government sector. Gross asset spending during 2012-13 totalled \$5.9 billion.³³⁸ The investment includes projects that are provided directly by agencies within the general government sector, and projects funded by the general government sector but provided mainly through the public non-financial corporations (PNFC) sector (mostly rail infrastructure).

In addition, assets are provided through public private partnerships (PPPs). The Government's High-Value, High-Risk framework (HVHR) and the new performance measures in 2012-13 for Major Projects Victoria have also been reviewed to provide an update on their progress.

The Committee's analysis of asset investment for 2012-13 did not include asset projects funded by agencies in the PNFC sector in their own right.

In analysing the investment of assets in 2012-13, this chapter examines:

- » what was spent on asset investment (Section 6.2);
- » asset investment by Government purpose classification (Section 6.3);
- » changes to expected costs and completion dates of projects during the year (Section 6.4);
- » High-Value, High-Risk projects (Section 6.5); and
- » Major Projects Victoria projects (Section 6.6).

6.2**What was spent on asset investment**

The three main methods for asset investment in 2012-13 were:

- » Purchases of non-financial assets: projects are funded and delivered by general government sector departments (see Section 6.2.1);
- » Cash flows from investments in financial assets for policy purposes – cash outflows: projects are funded by the general government sector, but the assets are delivered and retained principally by the PNFC sector (see Section 6.2.2); and
- » Public private partnership (PPPs): agreements where the private sector provides financing, construction and delivery of projects on behalf of the Government and generally manages and maintains the asset for a set time period. The asset

338 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.28

usually becomes the Government's property at the end of the period (see Section (6.2.3).

Gross asset spending funded via the general government sector for 2012-13 amounted to \$5.9 billion. This spending comprised \$4.1 billion from purchases of non-financial assets and \$1.8 billion by cash outflows to investments in financial assets for policy purposes.

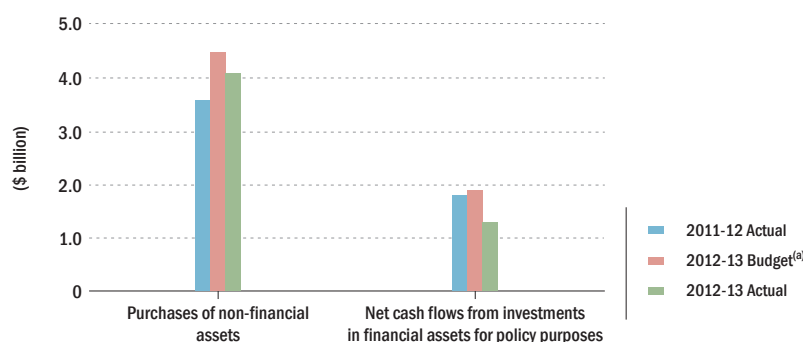
The Annual Financial Report for 2012-13 presents a net figure for comparison of actual cash flows from sectors other than the general government sector with the budget estimates.

Accordingly, the Committee has adopted a net approach to comparisons with budget for this aspect of its analysis of asset investment. On this net basis, net cash flows from investments in financial assets for policy purposes in 2012-13 was \$1.3 billion,³³⁹ comprising gross investment of \$1.8 billion less cash inflows of \$0.5 billion described in the Annual Financial Report as '*... cash receipts from the repayment and liquidation of such investments ...*'.³⁴⁰

Figure 6.1 compares actual expenditure against budget for 2012-13 and against actual for 2011-12 for both purchases of non-financial assets and net cash flows from investments in financial assets for policy purposes. The comparisons for purchases of non-financial assets are on a gross basis and, for the reason mentioned above, the comparison against budget for cash flows from investments in financial assets for policy purposes is on a net basis.

Figure 6.1

Asset investment, 2011-12 to 2012-13



(a) To provide for comparability between the 2012-13 Budget and actual amounts, the 2012-13 Budget for both purchases of non-financial assets and net cash flows from investments in financial assets for policy purposes reflect the reallocation adjustment discussed under the next heading. Therefore these budget amounts do not agree with the budget papers or the 2012-13 Financial Report. The impact on the presentation of budgets in the budgeted papers and the Annual Financial Report are addressed in that section. The adjustment is not a revised budget (that is, a change in circumstances or estimates), it is adjusting the presentation to allow the budget and actual to be comparable.

Source: Department of Treasury and Finance, 2012-13 Financial Report, October 2013, pp.28, 120

In relation to PPPs, four projects were commissioned in 2012-13. Expenditure on PPPs was not disclosed in the 2012-13 budget papers or Annual Financial Report. However, as detailed in Section 6.2.3, the 2013-14 budget papers included a new item for PPP payments, described as 'Cash flows from PPP payments'.³⁴¹ During the Committee's 2013-14 budget estimates inquiry, the Treasurer informed the

³³⁹ *ibid.*

³⁴⁰ *ibid.*, p.191

³⁴¹ Budget Paper No.4, 2013-14 State Capital Program, May 2013, p.11

Committee of estimated PPP cash flows over several years including \$238.7 million in 2012-13 and \$496.1 million in 2011-12.³⁴²

During 2012-13, some asset investment was completed with funding assistance of organisations outside of government. Notably, the former Department of Planning and Community Development completed three projects totalling \$114 million,³⁴³ with \$51.5 million of funding from outside of government.³⁴⁴ Such actions leverage investment contributions to deliver additional benefit.

The Government's medium-term fiscal strategy includes a net infrastructure investment³⁴⁵ target of 1.3 per cent of gross state product (GSP),³⁴⁶ calculated as the most recent average over five years. In 2012-13, net infrastructure investment amounted to \$5.2 billion³⁴⁷ (\$3.9 billion for purchases of non-financial assets and \$1.3 billion for net cash flows from investments in financial assets for policy purposes) which is 1.5 per cent of GSP. The overall five year average is 1.7 per cent.³⁴⁸ As such, the ongoing level of net infrastructure investment for 2012-13 was in line with the Government's medium-term fiscal strategy target.

FINDING: In 2012-13, the five year average of net infrastructure investment was 1.7 per cent of gross state product. This was above the Government's medium-term fiscal strategy target of 1.3 per cent.

Reallocation of transport infrastructure to the general government sector following machinery of government changes

Under machinery of government changes during 2012-13, a new body was created in the general government sector, the Public Transport Development Authority. A large proportion of asset investment that was previously reported in the PNFC sector under Victorian Rail Track was reallocated to the new body in the general government sector.

As a consequence, there was a need for the Department of Treasury and Finance (DTF) to consider methods of recording the expenditure previously disclosed within the budget under the PNFC sector, but which now was to be incurred in the general government sector.

For presentation purposes, DTF opted to report the expenditure as purchases of non-financial assets but retained the initial budget classification, that is, forecast expenditure by cash flows from investments in financial assets for policy purposes. This created an absence of comparable data and automatically gave rise to material variances between budgeted and actual expenditure for 2012-13.

³⁴² Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearings, response to questions on notice, received 9 July 2013, p.4

³⁴³ 'Melbourne Cricket Ground, Great Southern Stand', 'Melbourne Cricket Ground - Southern Stand redevelopment and Yarra Park landscaping', and 'Simonds Stadium - Stage 3 (in Geelong)'

³⁴⁴ Department of Planning and Community Development, response to the Committee's 2012-13 Financial and Performance Outcomes - Entity-Specific Questionnaire, received 6 February 2014, pp.4-5

³⁴⁵ That is, total purchases of property, plant and equipment, and capital contributions to other sectors of government net of proceeds from asset sales. See Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.37

³⁴⁶ Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.9

³⁴⁷ Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.120

³⁴⁸ Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, p.42

DTF supplemented the presented data with the following explanatory note in the *2012-13 Financial Report*.³⁴⁹

Total net investment activities in fixed assets and investments in other sectors was \$592 million lower than the original budget. This primarily reflects the change in the way public transport infrastructure is funded and acquired following the establishment of the Public Transport Development Authority (Public Transport Victoria) in April 2012. As a result, the classification of most cash flows between the authority and the transport portfolio entities have changed between 'cash flows from investments in non-financial assets' and 'net cash flows from investments in financial assets for policy purposes'.

The variances between budgeted and actual expenditure are material. To enable a direct comparison between the budgeted and actual expenditure for 2012-13, DTF advised the Committee that the amount of budget reallocated from 'Net cash flows from investments in financial assets for policy purposes' (mainly from the PNFC sector) to 'Purchases of non-financial assets' (the general government sector) was \$936.8 million.³⁵⁰

6.2.1

Assets obtained from investment by the general government sector

Total purchases of non-financial assets in 2012-13 was \$4.1 billion.³⁵¹

Significant spending occurred on:

- » *M80 upgrade* road projects - \$317.1 million;³⁵²
- » *Box Hill Hospital Redevelopment* - \$110.6 million;³⁵³
- » *Melbourne Wholesale Markets Redevelopment* - \$108.7 million;³⁵⁴ and
- » *Improving hospital services - Sub-acute* project - \$46.4 million.³⁵⁵

Total asset investment by the general government sector exceeded asset depreciation, which was \$2.3 billion.³⁵⁶ This indicates the level of investment should be sufficient to maintain the Government's existing assets as well as providing for the acquisition of new assets and ensuring continuous delivery of services.

FINDING: The aggregate investment in assets by the general government sector in 2012-13 exceeded depreciation. This position indicates the level of investment overall is sufficient to maintain existing assets and provide for new assets.

349 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.121

350 Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, p.24

351 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.28

352 Department of Transport, Planning and Local Infrastructure, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.12

353 Department of Health, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 28 November 2013, p.6

354 Department of State Development, Business and Innovation, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 8 November 2013, p.6

355 Department of Health, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 28 November 2013, p.8

356 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.25

Expenditure on business cases and planning of major projects

As emphasised in the Government's asset management guidelines, a robust business case is a key element of the planning process for asset investment.³⁵⁷ As such, the allocation of funds for specific projects may incorporate a separate component for planning, including the development of a business case. For some major projects, the annual budget papers identify the level of funding specifically allocated for planning purposes.

For 2012-13, specific planning allocations were identified for two major transport projects, namely the *East West Link* project and the *Melbourne Metro* project.

The 2012-13 budget papers allocated \$15.0 million³⁵⁸ to the *East West Link* project for planning and development purposes. In the 2013-14 budget papers, a further \$12.0 million was allocated, specifically for the continued development of a business case.³⁵⁹ The Department of Transport, Planning and Local Infrastructure (DTPLI) explained to the Committee that:³⁶⁰

The funding was to develop the business case and commence the statutory approvals planning process for the East West Link project. Given the scale and complexity of the project, it was appropriate to allocate sufficient funds to ensure a robust business case was developed to inform government decision making.

The 2012-13 budget papers also allocated \$49.7 million³⁶¹ to the *Melbourne Metro* project for planning and development purposes. This allocation is additional to funding totalling \$40 million³⁶² provided for the project's planning between 2009-10 and 2011-12. This project was previously named '*Melbourne metro – new rail tunnel planning and development – Stage 1*'. The then Department of Transport indicated the reasons for the additional funding of \$40 million for planning purposes in its 2011-12 Annual Report:³⁶³

Value engineering works were completed and the business case updated to reflect the Victorian Government's improved scope of works, linking from South Kensington to south of South Yarra as a single-stage project to deliver benefits sooner and more cost-effectively.

FINDING: Following further budget allocations, funds provided for planning purposes now total \$27.0 million for the *East West Link* project and \$89.7 million for the *Melbourne Metro* project.

357 For example, key planning documents such as the Department of Treasury and Finance, *Partnerships Victoria Requirements*, May 2013 and the Commonwealth Department of Infrastructure and Transport, *National Alliance Contracting Guidelines*, July 2011. The Commonwealth guidelines apply to departments in Victoria.

358 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.66

359 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.48

360 Department of Transport, Planning and Local Infrastructure, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 6 February 2014, p.8

361 Budget Paper No.4, *2012-13 State Capital Program*, May 2012, p.124

362 Department of Treasury and Finance, *2009-10 Budget Update*, November 2009, p.153

363 Department of Transport, *Annual Report 2011-12*, p.9

Disclosure of minor investment in budget papers

Following an earlier Committee recommendation,³⁶⁴ the 2013-14 Budget Paper No.4 (*State Capital Program*) introduced a new line item 'Other Capital Expenditure' for each department within the general government sector.³⁶⁵ The line item presents the aggregate expenditure for the year for smaller projects. This is an important addition to assist users' understanding of the impact of smaller asset investments by departments.

The new information does not disclose the aggregate total estimated investment (TEI) for these projects. Equivalent information is currently disclosed in the budget papers for projects with a TEI of less than \$1 million managed by entities within the PNFC sector.³⁶⁶

The Committee considers there would be merit in DTF taking similar action to present details of aggregate TEI for the general government sector minor departmental projects.

FINDING: The inclusion within budget papers of the aggregate estimated expenditure for minor asset projects managed by departments is a useful initiative. Extension of this information in future years to also identify aggregate total estimated investment for such projects would further enhance the presentation of budgeted asset investments.

RECOMMENDATION 5: To improve understanding of planned investment in departmental minor asset projects, and align disclosures with the public non-financial corporations sector, the Department of Treasury and Finance should also include within the budget papers the aggregate total estimated investment for such projects.

6.2.2

Assets obtained by cash flows from investments in financial assets for policy purposes

As identified in Section 6.2, annual asset investment recorded in the budget papers as funded from the general government sector includes an estimate of funds to be transferred to other sectors for asset purposes. The budget papers and the Annual Financial Report refer to these funding transfers as 'Investments in financial assets for policy purposes'.

Total asset investment by 'cash flows from investments in financial assets for policy purposes: cash outflows' in 2012-13 was \$1.8 billion.³⁶⁷

364 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, p.104, Recommendation 27

365 For example, see Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.45.

366 *ibid.*, p.108.

367 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.28

Agencies advised the Committee that significant asset spending in 2012-13 outside the general government sector occurred on:

- » \$1,105.7 million on the *Regional Rail Link*;³⁶⁸
- » \$111.7 million on *Stage 1 of the Melbourne and Olympic Park redevelopment*;³⁶⁹ and
- » \$43.3 million on *Upgrades to 113 housing units/sites project*.³⁷⁰

It can be seen that the majority of spending related to the *Regional Rail Link*.

Asset investment by the public financial corporations (PFC) sector amounted to less than one per cent of total State asset investment.³⁷¹

The *2011-12 Financial Report* reported investment through these other sectors solely under the line item 'Net cash flows from investments in financial assets for policy purposes'.³⁷² This presentation was further broken down in the *2012-13 Financial Report* to disclose total cash inflows and total cash outflows.³⁷³ The Committee supports this widened disclosure.

FINDING: In 2012-13, asset investment by cash flows from investments in financial assets for policy purposes – cash outflows totalled \$1.8 billion, principally involving the *Regional Rail Link*.

6.2.3

Assets obtained through public private partnerships

The third main method for asset investment, PPPs, is a means for significant assets to be built, operated and/or maintained by the private sector, with the government making payments after commissioning, over the period of the partnership. Payments by government begin when projects are 'commissioned' following the completion of construction.

The Committee's *Report on the 2013-14 Budget Estimates — Part Two* commented on the inclusion by DTF of a new line item 'cash flows from PPP payments'.³⁷⁴ During the Committee's 2013-14 budget estimate hearings, the Treasurer informed the Committee the estimated PPP cash flows for 2012-13 totalled \$238.7 million.³⁷⁵

368 Department of Transport, Planning and Local Infrastructure, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.29

369 Department of Planning and Community Development, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.9

370 Department of Human Services, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 19 November 2013, p.9

371 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, pp.62-3

372 Department of Treasury and Finance, *2011-12 Financial Report*, October 2012, p.30

373 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.28

374 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part Two*, October 2013, p.155

375 Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearings, response to questions on notice, received 9 July 2013, p.4

During its inquiry, the Committee sought a further breakdown of PPP expenditure in 2012-13 from departments. Of the 19 commissioned PPPs,³⁷⁶ responses were received for ten, meaning the Committee could not determine aggregate PPP expenditure.³⁷⁷ Expenditure for the ten projects included:³⁷⁸

- » finance charges on finance leases, \$529.2 million, and associated principal payments, \$19.8 million, and
- » other expenses (service payments, modification costs, maintenance, insurance and contingent costs), \$247.0 million.

See Appendix A6.2 for more details.

The Department of Justice responded in a manner similar to the previous year. It did not provide expenditure details for the commissioned PPPs within its responsibility. The Department reiterated to the Committee that '*Public private partnerships are commercial in confidence and therefore not disclosed.*'³⁷⁹

FINDING: As was the case in respect of the Committee's 2011-12 outcomes inquiry, the Department of Justice determined not to provide expenditure on commissioned public private partnerships projects in 2012-13 on the ground that they are '*... commercial in confidence*'.

Newly commissioned projects

Commissioned PPPs are referred to in the budget papers and the Annual Financial Report. In 2012-13, four PPPs were commissioned: *Desalination Plant*, *Peninsula Link*, *Barwon Water Biosolids Management Project*, and *Biosciences Research Centre* (now named *AgriBio*).³⁸⁰

One other project, the *Ararat Prison*, was reclassified in 2012-13, to a non-PPP category. This project (now named *Hopkins Correctional Centre*) had an original expected completion date of December 2012.³⁸¹ This completion target has been extended to the first quarter of 2015.³⁸² The Department of Justice referred to the changed project timelines in its annual report in the following terms:³⁸³

Hopkins Correctional Centre – as a consequence of the voluntary administration of key consortium parties, works on site ceased on 15 May 2012. Due to the longer than anticipated commercial discussions with the Private Sector Consortium and the appointment of a new

376 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2012-13*, November 2013, p.34; Note 33 of the *2012-13 Financial Report* itemises 17 PPPs, however the PPP titled 'Prisons' refers to multiple agreements, resulting in a total of 19. The prison PPPs are listed in Notes 17 and 18 of the Department of Justice's *Annual Report 2012-13*.

377 No details were provided for the prisons (Port Phillip Prison, Fulham Correctional Centre, Marngoneet Correctional Centre and Metropolitan Remand Centre), County Court, and Emergency Service Telecommunications (Department of Justice), or the Mildura Base Hospital – expected to be handed back to the State in 2013 (Department of Health). The remaining partnerships are under water sector public non-financial corporations and were not requested to provide information.

378 Calculated as the sum of departmental responses to Financial and Performance Outcomes Questionnaires, refer to Appendix A6.2.

379 Department of Justice, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 8 November 2013, p.16

380 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, pp.138, 144

381 Department of Justice, *Project Summary, Partnerships Victoria, Ararat Prison Project*, August 2010, p.13

382 Department of Justice, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 8 November 2013, p.10

383 Department of Justice, *Annual Report 2012-13*, p.112

builder for works to recommence, funds have been rephased into future years according to the revised project timelines.

Subsequent to these changes, the Department reclassified the *Ararat Prison* project from PPP to non-PPP and advised the Committee that ‘*The revised payment streams underpinning the Hopkins Correctional Centre require that it is no longer accounted for as a finance lease under the leasing accounting standard*’.³⁸⁴

FINDING: Four public private partnership projects were commissioned in 2012-13. Revised arrangements for the *Ararat Prison* project (now named *Hopkins Correctional Centre*) include extended project timelines with the latest expected completion date in early 2015.

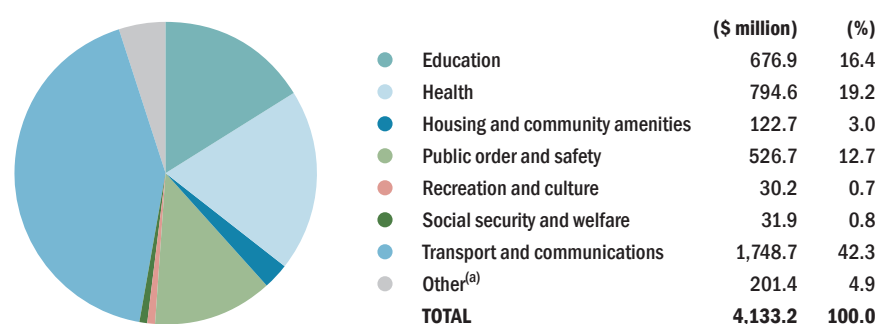
6.3 Asset provision by purpose

The Annual Financial Report categorises each year’s expenditure on assets in the general government sector according to ‘government purpose classifications’ developed by the Australian Bureau of Statistics (ABS).

The level of general government sector investment, by government purpose classification for 2012-13 is detailed in Figure 6.2. The majority of investment during the year was for ‘transport and communications’, health, and education-related projects. Collectively, these categories made up 77.9 per cent of all general government asset investment for the year.

Figure 6.2

General government sector investment by significant government purpose classification, 2012-13



(a) The ‘Other’ category is made up of: ‘general public services’; ‘fuel and energy’; ‘agriculture, forestry, fishing and hunting’; ‘mining, manufacturing and construction’; ‘other economic affairs’; and ‘other purposes’.

Source: Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.101

When compared to 2011-12, the level of general government asset investment for ‘Transport and Communications’ rose from 25.9 per cent to 42.3 per cent.³⁸⁵ This increase was attributable to the previously-mentioned reallocation of funding from Victorian Rail Track projects to the Public Transport Development Authority.

³⁸⁴ Department of Justice, response to the Committee’s 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 5 February 2014, p.3

³⁸⁵ Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.101

General government asset investment for education purposes fell from 36.8 per cent to 16.4 per cent in 2012-13,³⁸⁶ primarily due to the winding down of the Commonwealth-funded *Building the Education Revolution* project. (See Appendix A6.3 for more details).

FINDING: The largest general government asset investment by purpose in 2012-13 occurred in the 'transport and communications' classification, accounting for \$1.7 billion in investment. This investment, together with 'health' and 'education' constituted 77.9 per cent of total general government asset investment.

The Committee sought information from DTF on the reasons for any significant variances between budgeted and actual expenditure in 2012-13 by government purpose classification. On this subject, DTF advised:³⁸⁷

It is difficult to make detailed comparisons between the 2012-13 original budget estimates and the 2012-13 Annual Financial Report due to significant differences in the allocation methodology used across classifications for the two publications. For the original budget estimates, the allocation methodology uses ratios based on historical data and the impact of policy and non-policy estimate variations, whereas actual expenditure is based on actuals data fed by output that is mapped to GPCs [government purpose classifications].

In addition to DTF's response, comparison of actual to budget data by purpose is also influenced by the transfer of actual investment from Victorian Rail Track to the Public Transport Development Authority,³⁸⁸ as discussed in Section 6.2.

While recognising the issue of comparability raised by DTF, the Committee considers that data on Government expenditure by general government purpose classification presented in such significant documents as Government budget papers and the Annual Financial Report should be calculated on a uniform basis. Therefore, it considers DTF should reassess its presentation to enhance the usefulness of information to Parliament and other key stakeholders.

FINDING: Drawing on information provided by the Department of Treasury and Finance, budgeted asset investment data by government purpose classification presented in annual budget papers is not directly comparable with actual expenditure reported in the Annual Financial Report.

RECOMMENDATION 6: The Department of Treasury and Finance explore avenues to bring about greater comparability between budget and actual asset investment by government purpose classification published in annual budget papers and the Annual Financial Report.

386 *ibid.*

387 Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, p.13

388 Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.121

6.4

Changes to projects during the year

Elements of a project can change for a number of reasons. Reviewing past outcomes provides the Government with a valuable tool in minimising future adverse changes and maintaining efficient and effective project delivery.

The following key changes that occurred subsequent to the budget papers have been examined by the Committee:

- » variances in budgeted expenditure for the year for projects (Section 6.4.1);
- » changes in the TEI of a project (Section 6.4.2);
- » changes to expected completion dates of projects (Section 6.4.3); and
- » changes to commissioning of PPP projects (Section 6.4.4).

The Committee's commentary in these areas relates to selected projects rather than all projects. The Committee's questionnaires focused on large projects, that is, projects with a TEI greater than \$10 million.

6.4.1

Variances in budgeted expenditure for the year

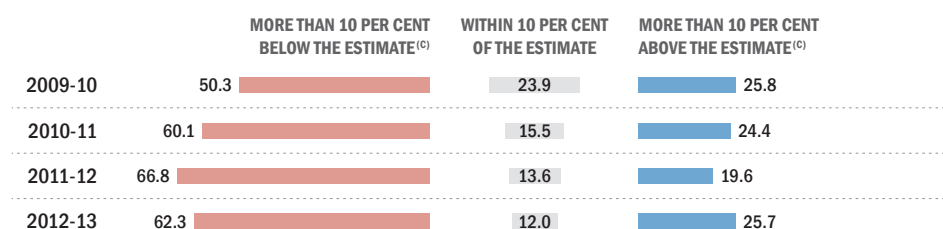
The Committee's review of the outcomes of budgeted expenditure on large general government sector projects in 2012-13 sought explanations on changes made to cost and time targets. Such variances impact on departmental cash flows, the expected delivery of projects to the community, and the engagement of suppliers and service providers, particularly the construction industry.

In addition, such variances not only demonstrate the level of alignment between planned and actual project expenditure, they can also impact on established project timeframes and overall project delivery.

Figure 6.3 shows the proportion of projects where: the actual expenditure was within 10 per cent (positive or negative) of the budget estimate; expenditure was more than 10 per cent above the budget estimate; or expenditure was more than 10 per cent below the budget estimate. The relevant details are presented in Appendix A6.4.

Figure 6.3

Proportion of large projects where expenditure was more than 10 per cent below the estimate, within 10 per cent of the estimate, or more than 10 per cent above the estimate, 2009-10 to 2012-13 (per cent)^{(a)(b)}



(a) Only projects with TEIs greater than \$10.0 million have been included.

(b) Changes to methodology mean that figures are not comparable with figures published by the Committee in previous years. This is due to figures in previous years including projects with TEIs lower than \$10.0 million.

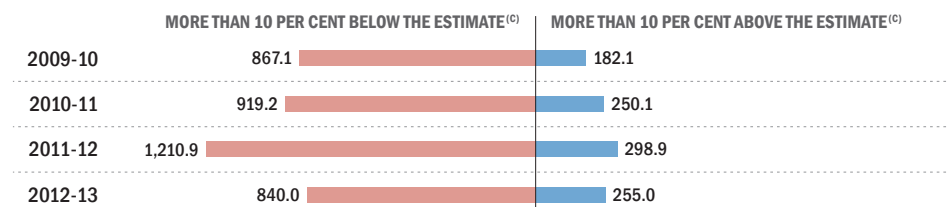
(c) Significant under-spends and over-spends have been defined as varying from the budget estimates by more than 10 per cent.

Sources: Departmental responses to the Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire – Part One; departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire; departmental responses to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire.

Figure 6.4

The financial impact of the above variances is shown in Figure 6.4 (See also Appendix A6.4). In 2012-13, the aggregate under-spend on examined projects was \$840.0 million and the aggregate over-spend was \$255.0 million.

Impact of variances between budget and actual expenditure on large projects, 2009-10 to 2012-13 (\$ million)^{(a)(b)}



(a) Only projects with TEIs greater than \$10.0 million have been included.

(b) Changes to methodology mean that figures are not comparable with figures published by the Committee in previous years. This is due to figures in previous years including projects with TEIs lower than \$10.0 million.

(c) Significant under-spends and over-spends have been defined as varying from the budget estimates by more than 10 per cent.

Sources: Departmental responses to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire – Part One; departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire; departmental responses to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire.

The Committee notes that the financial impact of projects where expenditure was below the estimate by more than 10 per cent, or exceeded the estimate by more than 10 per cent decreased in 2012-13, with the under-spend significantly lower than 2012-13. In previous reports, the Committee has expressed a view on the financial consequences of significant under/over-spends on major asset projects.³⁸⁹

FINDING: The financial impact in 2012-13 of examined projects where expenditure was significantly less than budget was \$840.0 million.

FINDING: The financial impact in 2012-13 of examined projects where expenditure exceeded budget by more than 10 per cent was \$255.0 million.

Explanations for variances

The Committee sought explanations for the above variances from departments. Departments indicated that the variances between budgeted and actual expenditure for 2012-13 were principally attributable to:

- » delays in projects;³⁹⁰
- » acceleration of works;³⁹¹
- » variances in expenditure in the prior year not foreseen at the time of formulating the related budget;³⁹²

389 Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes*, May 2013, p.36

390 For example, Department of Education and Early Childhood Development, *Trade Training Centres – Government Schools and Improving hospital services – Sub-acute projects*.

391 For example, Department of Transport, Planning and Local Infrastructure, *M80 upgrade – Stage 1C Edgars Road to Plenty Road* project.

392 For example, Department of Health, *Ballarat Base Hospital – Redevelopment* project.

- » scope changes;³⁹³ or
- » realisation of previously uncertain and unknown costs.³⁹⁴

The *Trade Training Centres – Government Schools* project incurred expenditure of only \$36.3 million compared with the budgeted figure of \$105.3 million. The Department of Education and Early Childhood Development (DEECD) explained the variance as:³⁹⁵

Lower actual expenditure due to delays in formal agreements with DEEWR [Commonwealth Department of Education, Employment and Workplace Relations], closure of Victoria University Melton campus and impact on Western Edge Cluster TTC [Trade Training Centre] project.

The *M80 upgrade (metro various)* project incurred expenditure of \$183.7 million, \$35.3 million greater than budgeted. DTPLI explained the variance as:³⁹⁶

Change in approved contract scope and acceleration of works.

Further explanations for variances can be viewed from the responses to the questionnaires that have been published on the Committee's website (www.parliament.vic.gov.au/paec).

6.4.2

Changes in the total estimated investment

The Committee compared 246 general government sector projects that were reported in both the 2012-13 and 2013-14 budget papers to identify the extent to which changes had occurred in the TEIs between years.

The proportion of significant changes (that is, a positive or negative change of more than 10 per cent) remains low, at less than 7 per cent (see Figure 6.5).

Figure 6.5

Proportions of projects with significantly revised TEIs, 2009-10 to 2012-13 (per cent)^{(a)(b)}

	SIGNIFICANT DECREASES	NO SIGNIFICANT CHANGE	SIGNIFICANT INCREASES
2009-10 and 2010-11	4.9	88.0	7.1
2010-11 and 2011-12	4.9	89.1	6.0
2011-12 and 2012-13	4.2	89.3	6.5
2012-13 and 2013-14	3.3	93.4	3.3

(a) Significant revisions have been defined as more than 10 per cent.

(b) Changes to methodology mean that figures are not comparable with figures published by the Committee in previous years.

Sources: Budget Information Paper No.1, *Public Sector Asset Investment Program*, 2009-10 to 2010-11; Budget Paper No.4, *State Capital Program*, 2011-12 to 2013-14

393 For example, Department of Education and Early Childhood Development, *TAFE Student Management System* project.

394 For example, Department of Transport, Planning and Local Infrastructure, *Dingley Bypass between Warrigal Road to Westall Road* project.

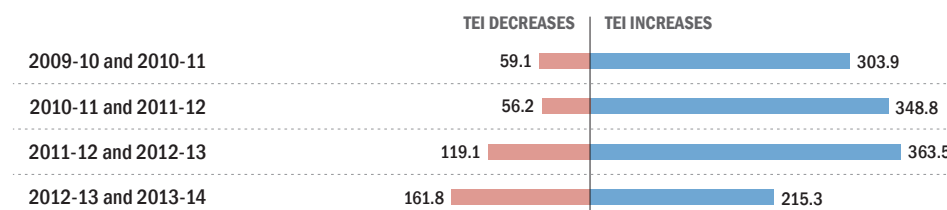
395 Department of Education and Early Childhood Development, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 12 November 2013, p.10

396 Department of Transport, Planning and Local Infrastructure, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.12

Figure 6.6 shows the aggregate financial impact of TEI changes between the budget papers and indicates that the most recent increases have been the lowest in four years (\$215.3 million). Conversely, the decreases in TEIs (\$161.8 million) were the largest over the same period.

Figure 6.6

Impact of significant revisions to TEIs, 2009-10 to 2012-13 (\$ million)^{(a)(b)}



(a) Significant revisions have been defined as more than 10 per cent.

(b) Changes to methodology mean that figures are not comparable with figures published by the Committee in previous years.

Sources: Budget Information Paper No.1, *Public Sector Asset Investment Program*, 2009-10 to 2010-11; Budget Paper No.4, *State Capital Program*, 2011-12 to 2013-14

The largest individual increase was related to the *Melbourne Strategic Assessment* program (previously named *Grasslands* project), rising by \$154.3 million to a TEI of \$334.3 million in 2013-14.³⁹⁷ The Government renamed the project in August 2012 with a change in delivery to a full cost recovery model.³⁹⁸

The largest individual decrease was the *Connections Project* (previously named *Northern Victoria Irrigation Renewal Project*), falling by \$127.2 million to a TEI of \$715.3 million in 2013-14. This project was transferred from the Department of Sustainability and Environment (DSE) to Goulburn-Murray Water Corporation. The change to the TEI was explained ‘...as the project progresses through implementation, aspects of the expenditure are reclassified from output to asset, and vice versa. The total cost of the project, however, has remained unchanged.’³⁹⁹

FINDING: The financial impact from projects with significant increases in the total estimated expenditure between the 2012-13 and 2013-14 budget papers was \$215.3 million, substantially lower than 2011-12 and the lowest level since 2009-10.

FINDING: The financial impact from projects with significant decreases in the total estimated expenditure between the 2012-13 and 2013-14 budget papers was \$161.8 million, the largest level of decreases since 2009-10.

Most projects with significant TEI changes had explanations for the changes in the budget papers. The Committee noted some projects did not have explanations, such as the *Connections Project*. For this project, the budget papers showed a

397 Budget Paper No.4, *2012-13 State Capital Program*, May 2012, p.47; Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.24

398 Department of Environment and Primary Industries, response to the Committee’s 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.6

399 Goulburn-Murray Water Corporation, response to the Committee’s 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 13 February 2014, p.3

significant fall in the latest revised expenditure to date, falling by \$99.6 million between estimates as at 30 June 2012 and 30 June 2013.⁴⁰⁰

In making this point, the Committee considers all significant changes to estimated expenditure for major projects should be explained in both the budget papers and agencies' annual reports.

6.4.3

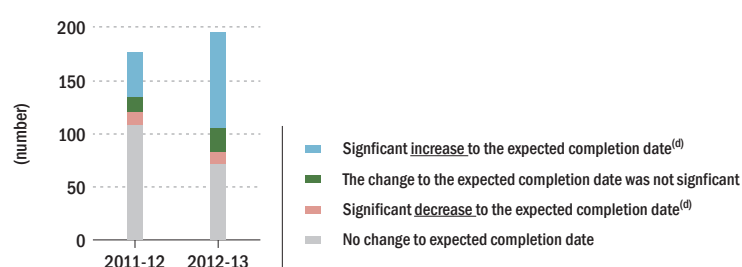
Changes to expected completion dates

The purpose of the Committee seeking departmental responses in this area was to determine the extent to which changes had been made to the expected completion date of large general government sector projects. In analysing the responses, the Committee regarded changes of an increase or decrease by three months or more to be significant. Figure 6.7 presents the results of the Committee's analysis for 196 large general government sector projects examined, identifying the extent of both significant increases and decreases to expected completion dates.

The Committee found that in 2012-13, there were 101 projects (51.5 per cent) that had either significant increases or decreases to the targeted dates, mostly significant increases.⁴⁰¹ This is a higher level compared to the prior year where 54 projects (30.5 per cent) had either significant increases or decreases to the targeted dates.⁴⁰²

Figure 6.7

Changes to expected completion dates of departmental projects, 2011-12 to 2012-13^{(a)(b)(c)}



(a) Only projects with TEIs greater than \$10.0 million have been included.

(b) Due to a change in the methodology for collecting data, projects prior to 2011-12 could not be included.

(c) Where departments responded with expected completion dates early/mid/late in the year, this has been interpreted using DTF's 2013-14 definitions with changes calculated from the last day of the advised period. For example, the Department of Justice revised the expected completion date for the *New Children's Court at Broadmeadows* project to 'Mid 2016'. The date for calculating the change is 31 August 2016, the last day of the period using the budget paper definition.

(d) Significant changes are defined as three months or more.

Sources: Committee calculations based on: departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire; departmental responses to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire.

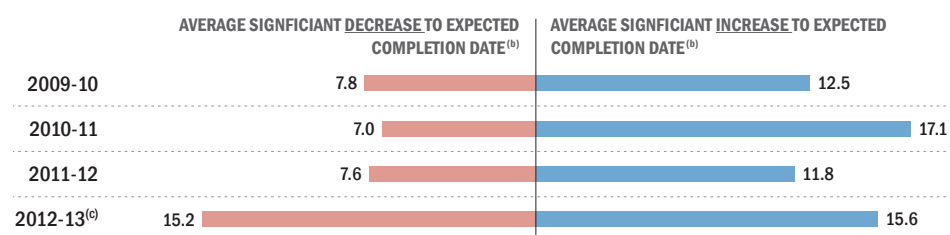
Figure 6.8 below compares the impact in 2012-13 of the 101 projects with significant movements to prior years, expressed in terms of the average change in months to the target dates.

400 Budget Paper No.4, *2012-13 State Capital Program*, May 2012, pp.46-7; Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.92

401 Departmental responses to Financial and Performance Outcomes Questionnaires.

402 Departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire; departmental responses to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire.

Figure 6.8

Average impact of significant changes to estimated completion dates 2009-10 to 2012-13 (months)^(a)

(a) Only projects with TEIs greater than \$10.0 million have been included.

(b) Significant changes are defined as three months or more.

(c) In 2012-13, the expected completion date for the Melbourne Strategic Assessment program changed from 2020 to 2053. This large change has been excluded as it would cause the graph to misrepresent the 2012-13 results.

Sources: Committee calculations based on: departmental responses to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire – Part One; departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire; departmental responses to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire.

The average significant increase in 2012-13 was 15.6 months, which is higher than the 2011-12 but still lower than the average in 2010-11. The average significant decrease in 2012-13 was 15.2 months, which is about double the average of the three previous years.

Figures 6.7 and 6.8 are based on Appendices A6.5 and A6.6.

The above analysis shows that there was a large number of projects that experienced a significant increase to the expected completion date during 2012-13 compared to changes during 2011-12. This coincides with a larger impact of the average significant increases. Reasons for variations to the target dates are discussed below.

FINDING: Significant increases to expected completion dates of projects in 2012-13 occurred on 45.9 per cent of projects examined. This is a large increase from 2011-12. The impact in 2012-13 was an average increase of 15.6 months.

FINDING: Significant decreases to expected completion dates of projects in 2012-13 occurred on 5.6 per cent of projects examined. The impact in 2012-13 on these projects was an average decrease of 15.2 months.

Explanations for variances

The Committee sought explanations for changes to expected project completion dates from departments. Departments indicated that the changes have commonly been caused by:

- » additional time required for the estimated finalisation of all payments following the contracts defect period (where any defects identified after practical completion are remedied before final construction payment);⁴⁰³
- » later than expected agreement with stakeholders;⁴⁰⁴

⁴⁰³ For example, Department of Transport, Planning and Local Infrastructure, *Stud Road Improvement – Boronia Road to Mountain Highway* project.

⁴⁰⁴ For example, Department of Transport, Planning and Local Infrastructure, *Cycling package* project.

- » finalisation being delayed by the time taken to implement system interfaces;⁴⁰⁵ and
- » early finish or acceleration of works.⁴⁰⁶

For significantly delayed projects, DTPLI explained that for 19 projects⁴⁰⁷ with TEIs in excess of \$10 million, additional time had been required for the estimated finalisation of all payments following the contracts defect period.

The Committee understands that the identification of defects necessitating attention by contractors is an important task for departments. The Committee also understands that defect periods can extend beyond three months. It would appear that close attention is directed by DTPLI for this aspect of its responsibilities. However, there may be some merit in examining the underlying reasons for time associated with contract defect periods with a view to reducing the number of projects falling within this category of significant delay.

FINDING: A major reason advised by the Department of Transport, Planning and Local Infrastructure for significant delays in completing projects in 2012-13 was additional time required for contract defect periods.

6.4.4

Commissioning of public private partnership projects

The capital program described in budget papers includes the number of PPPs, those that have been commissioned and a reference to any likely new projects.⁴⁰⁸

The budget papers only identify PPP projects expected to be commissioned during the year in a footnote to the table '*Application of cash resources for the general government sector*'.⁴⁰⁹ This footnote is cross referenced to the expected financial outlays associated with finance lease charges for PPPs.

In 2012-13, just the *Peninsula Link* project was identified in this footnote to be commissioned.⁴¹⁰ However, as mentioned in Section 6.2.3, three other PPPs, *AgriBio*, *Victorian Desalination Plant*, and *Barwon Water Biosolids Management*, were also commissioned in 2012-13 (for additional information on commissioning, see Section 4.4.1).

As identified in the Committee's previous financial and performance outcomes report, the *AgriBio* and *Victorian Desalination Plant* projects had been targeted for completion in 2011-12.⁴¹¹

405 For example, Department of Transport, Planning and Local Infrastructure, *Metropolitan train control reliability* project.

406 For example, Department of Transport, Planning and Local Infrastructure, *Traffic Signal Retrofit Program – Installation of LED lamps* project.

407 Department of Transport, Planning and Local Infrastructure, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, pp.7-19, 25

408 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, pp.7-8

409 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.48

410 *ibid.*

411 Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes*, May 2013, p.82

FINDING: In identifying the projected finance lease charges for public private partnerships (PPPs) in 2012-13, the budget papers stated that the estimate related to one project, the *Peninsula Link*. An additional three PPPs were commissioned during the year.

6.5 High-Value, High-Risk projects

Projects designated as High-Value, High-Risk (HVHR) have a TEI greater than \$100 million or have a high risk involved. The Government's HVHR framework provides that projects designated as having high value or high risk are subjected to more stringent processes at all stages of their development.

The scrutiny of HVHR projects includes more rigorous oversight throughout their lifetime including the Treasurer's approval and review, and being subject to independent Gateway reviews at specified stages during the lifecycle of the project.⁴¹² All HVHR projects are subject to review under each stage of the Gateway review process.

6.5.1 Implementation of the High-Value, High-Risk process to date

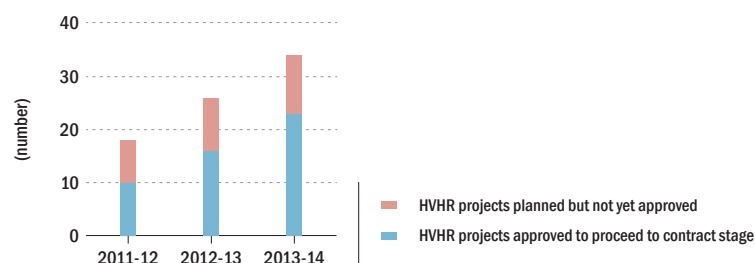
Since the HVHR framework was introduced by the Government in 2011, there have been three sets of budget papers with references to projects designated as HVHR.

Projects designated as HVHR

The number of projects designated as HVHR has increased by around 89 per cent between 2011-12 and 2013-14. Figure 6.9 shows this increase is mostly attributable to projects approved to proceed to contract stage. This increasing trend reflects the initial period of the HVHR framework with an increasing number of projects either approved or planned in 2011-12, reaching approval stage in subsequent years.⁴¹³

Figure 6.9

Number of projects designated High-Value, High-Risk



Sources: Budget Paper No.4, *State Capital Program*, 2011-12 to 2013-14

⁴¹² Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.3

⁴¹³ For example, the *Non-urban Train Radio renewal* and *Reforming the collection and enforcement of legal debt in Victoria* projects moved from planned to approved.

There were 33 projects in the 2012-13 budget papers with TEIs greater than \$100 million but are not designated HVHR. DTF advised the most common reasons for this position were:⁴¹⁴

- » sub-projects forming part of the main overall project had a lower value than the HVHR threshold (this reason applied to 10 main overall projects);⁴¹⁵ and
- » particular projects had commenced prior to the introduction of the HVHR framework.⁴¹⁶

The Committee noted several non-HVHR projects with TEIs greater than the threshold but which have smaller components were subject to changes in 2012-13 to actual expenditure, TEI or estimated completion date. An example of such circumstances related to the *Improving train operations – rail service efficiencies* project managed by DTPLI.⁴¹⁷ The Committee notes there were significant changes to this project in that its:

- » actual expenditure during 2012-13 was \$45.9 million (85.7 per cent) less than budgeted;
- » TEI decreased by \$19.0 million (17.0 per cent) from 2012-13 to 2013-14; and
- » estimated completion date changed from mid-2014 to mid-2015.

The Department explained the lower than expected expenditure in 2012-13 as ‘*expenditure less than estimated due to rescheduling of project*’, the extended estimated completion date as ‘*technical issues and project rescheduling due to statutory approvals to works at various locations*’,⁴¹⁸ and the decreased TEI as the ‘*TEI has decreased by \$18.990 million due to a change of project scope*’.⁴¹⁹

The Government contends that the increased rigour of the HVHR framework can increase the certainty of on-budget and on-time delivery to the community for projects with TEIs greater than \$100 million that are comprised of smaller project components. Such an outcome is directly consistent with the fundamental rationale for the HVHR initiative. DTF’s HVHR guidelines do not specifically refer to projects with smaller project components that in aggregate, have estimated expenditure greater than \$100 million.

The information furnished to the Committee by DTF did not indicate whether any non-HVHR projects comprising smaller individual elements have been subsequently reviewed and brought within the HVHR purview.

FINDING: A number of projects greater than \$100 million that have not been designated High-Value, High-Risk because they contain smaller components had significant changes to the total estimated investment, actual expenditure for the year, or expected completion date.

414 Department of Treasury and Finance, response to the Committee’s 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, pp.10-12

415 For example, Yarra Valley Water Corporation, *Water Growth (Craigieburn/Mickelham/Kalkallo)* project.

416 For example, Director of Housing, *Carlton redevelopment – 246 units/sites* project.

417 Department of Treasury and Finance, response to the Committee’s 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, p.10

418 Department of Transport, Planning and Local Infrastructure, response to the Committee’s 2012-13 Financial and Performance Outcomes General Questionnaire, received 18 November 2013, p.21

419 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.125

Higher risk from Information and Communication Technology (ICT) Projects

Recent reports to Parliament by the Ombudsman and the Auditor-General have highlighted the inherent risk of ICT projects, particularly in relation to their upfront planning and scrutiny by management of periodic adherence of established key milestones, including cost.

The Ombudsman and the Auditor-General reported extensively on this subject in their joint report.⁴²⁰ The Committee commented on the findings in this joint report as part of its Inquiry into major infrastructure projects.⁴²¹

The joint report identified that out of ten past ICT projects examined, all exceeded their budget with an estimated cumulative total of \$1.4 billion, more than doubling the original cumulative total budget of \$1.3 billion for all projects.⁴²² Notably, four of the projects (the *Link* project, the *RandL* project, the *Ultrahnet* project and the *Housing Integrated Information Program* project) started with budgets less than the HVHR threshold of \$100 million. At the time of that report, the Ombudsman and Auditor-General estimated they had already exceeded this threshold. The report also identified that most projects exceeded their timeframes.⁴²³

In the *Learning Technologies in Government Schools* report in December 2012, the Auditor-General examined the *Ultrahnet* project for schools. This had a TEI of \$60.5 million when reported last in the 2010-11 Budget.⁴²⁴ The Auditor-General estimated using DEECD's data, that by 'June 2013 it is likely to have cost approximately \$180 million' and noted 'no cost-benefit analysis has been conducted by DEECD to determine whether the *Ultrahnet* provides value for money, or whether the same functionality could have been delivered more cost effectively'.⁴²⁵

Subsequently, the accounting treatment adopted by DEECD wrote off \$28.0 million in 2012-13 from the value of the *Ultrahnet*. The Department commented that:⁴²⁶

The annual impairment review performed by DEECD on intangible assets for 2013, resulted in an impairment of the Ultrahnet for \$28 million... driven by management noting considerable uncertainty as to its future use.

The Department no longer manages a dedicated webpage relating to the project.

The risks and issues associated with ICT projects were also evident in the *TAFE Student Management System* project. In 2012, the former Victorian Skills Commission identified the need to write off \$21.1 million from the project's carrying value due to a reduction in its future expected benefits.⁴²⁷ DEECD, the responsible entity for the project from 2013, saw the need for an additional

420 Victorian Ombudsman, *Own motion investigation into ICT-enabled projects*, November 2011

421 Public Accounts and Estimates Committee, *Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects*, December 2012

422 Victorian Ombudsman, *Own motion investigation into ICT-enabled projects*, November 2011, p.4

423 *ibid.*

424 Budget Information Paper No.1, *2010-11 Public Sector Asset Investment Program*, May 2010, p.34

425 Victorian Auditor-General's Office, *Learning Technologies in Government Schools*, December 2012, p.28

426 Department of Education and Early Childhood Development, *Annual Report 2012-13*, p.89

427 Victorian Skills Commission, *Annual Report 2012*, p.208 (this is contained within the Department of Education and Early Childhood Development, *Annual Report 2012-13*)

\$30.0 million to be added to the TEI in the 2013-14 Budget, notwithstanding the earlier write down in the carrying value. The 2013-14 budget papers identified this increase was for the ‘...*expanded scope to respond to policy changes and enable roll-out to occur this year...*’⁴²⁸

The above circumstances constitute further examples of the importance of close monitoring of ICT projects in the public sector. Such close monitoring is critical to the taking of early remedial action when signs of potential problems become evident to management.

The Committee has noted that, by acknowledging the joint Ombudsman’s and Auditor-General’s report, DTF published expanded guidance in the technical supplement ‘*ICT projects technical guidance - Procure and deliver*’.⁴²⁹ The Committee recognises this positive action.

The Government’s HVHR guidelines recognise the risks associated with ICT projects. The guidelines include three criteria used by the Government for designation of projects as HVHR. They state:⁴³⁰

An investment is considered HVHR if any of the following criteria are met:

- » *the TEI is more than \$100 million, regardless of funding source;*
- » *the Gateway PPM [Project Profile Model] identifies the investment as ‘high risk’; or*
- » *the government identifies the investment as warranting extra rigour – e.g. ICT projects, multi-sector funding sources.*

The Committee considers the introduction of the HVHR framework provides an opportunity for the Government to closely monitor its exposure to ICT project risks.

FINDING: Past findings of the Ombudsman and the Auditor-General highlight that Information and Communication Technology (ICT) projects are inherently risky and more susceptible to exceeding budgeted cost and timelines. The Government’s lifecycle High-Value, High-Risk guidelines recognise ICT projects may warrant extra rigour and attention.

6.6

Major Projects Victoria projects

Major Projects Victoria (MPV) is a unit within the Department of State Development, Business and Innovation (DSDBI) with the purpose of providing centralised expert project management. It undertakes infrastructure projects in its own right and provides specialist services to other agencies to assist their management of infrastructure projects.

428 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.20

429 Department of Treasury and Finance, *ICT projects technical guidance – Procure and deliver*, July 2012

430 Department of Treasury and Finance, *Investment Lifecycle and High Value/High Risk Guidelines – Overview*, 2014, p.14

The Committee included detailed comments on MPV and its management strategies applied to infrastructure projects in its December 2012 report on *Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects*.

6.6.1

Changes to performance measures of Major Projects Victoria

The Committee previously examined MPV's performance reporting and recommended '*the Department of Business and Innovation develop a set of performance measures for Major Projects Victoria that measures the performance of projects assisted by the unit compared to original targets*'.⁴³¹

Similarly, the Auditor-General recommended in the performance audit Managing Major Projects:⁴³²

The Department of Business and Innovation should undertake a thorough and robust review of its external and internal indicators related to Major Projects Victoria with the aim of:

- » *developing new Budget Paper 3 measures that better represent actual performance.*

The Department replaced the 2012-13 performance measure '*Delivery of Nominated Major Projects Victoria Projects Complies with Agreed Plans and Contractual Frameworks*' with the following more detailed measures in the 2013-14 budget papers:⁴³³

- » *Management of Major Projects Victoria Projects Complies with Contracted Scope;*
- » *Management of Major Projects Victoria Projects Complies with Contracted Cost; and*
- » *Management of Major Projects Victoria Projects Complies with Contracted Time.*

The threshold for compliance is within (positive or negative) 5 per cent. The new measures will provide increased clarity to the performance of MPV projects.

The Department clarified the criteria of the contracted scope:⁴³⁴

A project will be assessed as not meeting 'contracted scope' if there has been a material scope change during the financial year. The materiality of a scope change is assessed on a project by project basis and documented. A scope change will generally be defined as 'material' if the value of the scope change is +/- 5 per cent of the total contract value.

⁴³¹ Public Accounts and Estimates Committee, *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2012, p.229, Recommendation 47

⁴³² Victorian Auditor-General's Office, *Managing Major Projects*, October 2012, p.52

⁴³³ Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.231

⁴³⁴ Department of State Development, Business and Innovation, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 31 January 2014, p.5

The Department clarified the contracted cost used for measuring compliance is derived from the *‘Main Works Contract/Project Development Agreement incorporating any variations’*, and further detailed the criteria for evaluation:⁴³⁵

If the contracted cost shifts by +/- 5 per cent of the total contract value over the financial year, the project will be assessed as not meeting ‘contracted cost’.

Further, the Department stated that the completion date is *‘generally the date of practical completion (or equivalent) contained in the Main Works Contract/Project Development Agreement, incorporating any variations; or the date that practical completion was actually achieved, with the criteria for evaluation’*.⁴³⁶

If the contractual completion date shifts by +/- 5 per cent of the total contract time (the period of time between contract commencement and contract completion) over the financial year, the project will be assessed as not meeting ‘contracted time’.

The Committee recognises the intended benefits in terms of the Department’s performance measurement strategies for MPV stemming from these changes.

The Committee notes that the criteria adopted by the Department for its amended measures dealing with contracted cost and contracted time include a provision for *any variations*. The Committee considers it will be important for the Department to carefully manage this component of its revised MPV performance measurement regime.

FINDING: New performance measures established for Major Projects Victoria increase the level of detail and transparency relating to contracted scope, cost and time. These changes should strengthen the entity’s performance measurement regime and enhance external assessments of its periodic performance.

6.6.2

Performance of Major Projects Victoria projects against asset investment as a whole

Where information was available, the Committee compared expenditure against budget and changes to expected completion dates to general government sector projects above \$10 million. There was no significant trend to report relating to TEI changes.

Figure 6.10 below outlines the results of the Committee’s analysis. It is based on the information provided to the Committee by DSDBI, and details the proportion of projects where expenditure was below the budget estimate by more than 10 per cent, within 10 per cent of budget estimates or more than 10 per cent above the budget estimates. General explanations for variations to budgeted expenditure for the year are detailed in Section 6.4.1.

⁴³⁵ *ibid.* Wording of the response was updated after email clarification by the Department.

⁴³⁶ *ibid.*

Figure 6.10

Proportion of MPV projects and large general government sector projects where expenditure was more than 10 per cent below the estimate, within 10 per cent of the estimate, or more than 10 per cent above the estimate, 2009-10 to 2012-13 (per cent)^(a)

		MORE THAN 10 PER CENT BELOW THE ESTIMATE	WITHIN 10 PER CENT OF THE ESTIMATE	MORE THAN 10 PER CENT ABOVE THE ESTIMATE
2009-10^(b)	MPV projects	100.0	0.0	0.0
	General Government projects excluding MPV	49.0	24.5	26.5
2010-11	MPV projects	66.7	0.0	33.3
	General Government projects excluding MPV	59.9	16.0	24.1
2011-12^(c)	MPV projects	60.0	20.0	20.0
	General Government projects excluding MPV	67.0	13.4	19.6
2012-13^(d)	MPV projects	22.2	44.5	33.3
	General Government projects excluding MPV	63.8	11.3	24.9

(a) Only projects with TEIs greater than \$10.0 million have been included in the general government sector projects data.

(b) The 2009-10 budget was not disclosed for the MPV project *Princes Pier Restoration – Stage 2*. Therefore this has not been included.

(c) The 2011-12 budget was not disclosed for the MPV projects *Melbourne Wholesale Markets* and *Princes Pier Restoration – Stage 2*. Therefore these have not been included.

(d) The 2012-13 budget was not disclosed for the MPV projects *Melbourne Wholesale Markets* and *Federation Square East*. Therefore these have not been included.

Sources: Departmental responses to Committee's 2012-13 Financial and Performance Outcomes General Questionnaire; departmental responses to Committee's 2011-12 Financial and Performance Outcomes General Questionnaire; departmental responses to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire – Part One.

The proportion of MPV projects where recorded expenditure was more than 10 per cent above the budget estimates has been higher than general government sector projects since 2010-11, indicating an area for further improvement. Conversely, the material presented to the Committee shows that under-spends were significantly lower than projects in the general government sector in 2012-13.

See Appendix A6.9 for more details.

The financial impact in 2012-13 of the budgeted spending variances on MPV projects was \$14.5 million in aggregate for projects that exceeded the estimate by more than 10 per cent, and \$1.9 million in aggregate for projects where expenditure was below the estimate by more than 10 per cent.⁴³⁷

The above analysis excludes the *Melbourne Wholesale Markets* project as no budgeted expenditure for the year was publically disclosed in budget papers prior to 2013-14. It incurred expenditure of \$108.7 million in 2012-13.⁴³⁸

FINDING: Based on information provided to the Committee, the proportion of Major Projects Victoria (MPV) projects with recorded expenditure greater than 10 per cent above the budget estimates has been greater than the general government sector projects since 2010-11. The proportion of MPV projects with recorded expenditure below the budget estimate by more than 10 per cent was significantly lower than general government projects in 2012-13.

⁴³⁷ Department of State Development, Business and Innovation, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 8 November 2013, pp.5-7

⁴³⁸ *ibid.*, p.6

Figure 6.11 compares expected completion dates of MPV projects to general government sector projects. Based on information provided to the Committee, the analysis indicated there was a considerable improvement between 2011-12 and 2012-13, with MPV increasing the proportion of projects (from 57.1 per cent to 72.2 per cent) with no significant changes. The analysis also identified that the level of significant increases to expected completion dates (27.3 per cent) was substantially lower than the general government sector (47.0 per cent).

Figure 6.11

Proportion of MPV projects, and large general government sector projects expected completion dates, 2011-12 to 2012-13 (per cent)^{(a)(b)}

		SIGNIFICANT <u>DECREASE</u> TO EXPECTED COMPLETION DATE ^(c)	NO SIGNIFICANT CHANGE TO EXPECTED COMPLETION DATE ^(c)	SIGNIFICANT <u>INCREASE</u> TO EXPECTED COMPLETION DATE ^(c)
2011-12	MPV projects	0.0	57.1	42.9
	General Government projects excluding MPV ^(d)	7.1	70.0	22.9
2012-13	MPV projects	0.0	72.7	27.3
	General Government projects excluding MPV ^(d)	6.0	47.0	47.0

(a) Due to a change in the methodology for collecting data, projects prior to 2011-12 could not be included.

(b) Where a department responded with expected completion dates early/mid/late in the year, this has been interpreted using the 2013-14 definitions with changes calculated from the last day of the period quoted. For example, the Department of Justice revised the expected completion date for the *New Children's Court at Broadmeadows* project to 'Mid 2016'. The date for calculating the change is 31 August 2016, the last day of the period using the budget paper definition.

(c) Significant changes are defined as three months or more.

(d) Only projects with TEIs greater than \$10.0 million have been included in the general government sector projects data.

Sources: Departmental responses to Committee's 2012-13 Financial and Performance Outcomes General Questionnaire; departmental responses to Committee's 2011-12 Financial and Performance Outcomes General Questionnaire.

See Appendix A6.9 for more details.

FINDING: In 2012-13, a higher proportion of Major Projects Victoria projects had no significant change to expected completion dates compared to large general government sector projects.

REPORTING PRACTICES FOR KEY ASSET PROJECTS

7.1

Introduction

One of the fundamental characteristics of asset investment programs across the Victorian public sector is the diversity of projects. This diversity is reflected in the varying nature of individual projects, as well as their purpose, size, cost and construction time frames, and their methods of funding and delivery.

The information presented on new and existing asset projects in the Government's annual budget papers helps to convey the extent of this diversity and the magnitude of investment programs. These characteristics are also evident from the responses on asset investments received by the Committee from departments and other agencies to its questionnaires relating to this 2012-13 outcomes inquiry. The Committee's commentary on these responses, as addressed in particular chapters of this report, and especially Chapter 6 on asset investment, reinforces the varying profiles and attributes of individual projects.

In bringing together the results of its research and findings for the preceding chapters of this report, the Committee considered it would be desirable to also consider public sector asset investments from an external reporting perspective.

In adopting this approach, the Committee has recognised the advanced nature of Victoria's asset management framework and related guidance material. This guidance, encompassing the full lifecycle of projects, including public private partnerships (PPPs) and Alliances, is available to all agencies across the three sectors of government in Victoria.

The Committee has then considered the extent to which potential exists to enhance current external public sector reporting practices in Victoria, particularly for the reporting of key asset projects.

The Committee's focus in the chapter on asset reporting was influenced by the fact that the wide-ranging guidance material available to agencies on the management of asset projects is mainly directed at intra-government management and reporting procedures. In addition, the Government's recent initiative relating to the establishment of departmental objective indicators, as presented in the 2013-14 budget papers, is predominately related to output performance, with a limited connection only to departmental asset projects. The Committee included detailed comment on this initiative's early progress in 2012-13 in its recent report on Victoria's Performance Measurement and Reporting System.⁴³⁹

The Committee's approach for this chapter was also influenced by major contemporary developments in particular Victorian industries. These developments, which include industry restructuring decisions and job displacements, reinforce the importance of infrastructure projects for promoting economic growth and productivity.

⁴³⁹ Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System*, March 2014, Chapter 3

Accordingly, this chapter presents:

- » a broad outline of the diversity of public sector investment programs and their implications for external reporting practices (Section 7.2);
- » recognition of the wide-ranging central guidance on managing asset projects that is available to all public sector agencies in Victoria (Section 7.3);
- » an examination of current external reporting practices for selected asset investments, both centrally and at agency level (Section 7.4); and
- » an assessment of the potential for the Government to draw on its improvement initiatives on asset management and departmental output reporting to further strengthen existing external asset reporting practices and, in turn, enhance the position of key stakeholders, namely Parliament and the community. (Section 7.5).

Other chapters in this report directly address 2012-13 financial and performance outcomes. The Committee's coverage in this chapter therefore encompasses a broader assessment of asset reporting practices in place, including, as necessary, reference to related reported 2012-13 outcomes.

7.2

The diversity of public sector investment programs

The diversity of projects within public sector investment programs extends across a range of characteristics and attributes. This diversity is derived from several factors including:

- » the positioning of projects within core sectors of government such as health, public transport, roads, justice, water, human services, ports, etc.;
- » the funding sources established for projects including those with a mix of Commonwealth and State funding;
- » the approach adopted for the procurement of projects such as PPPs, Alliances and those involving more traditional direct contracting or outsourcing;
- » the size and timeframes of projects which can give rise to the need for both short and long-term targets, consistent with government policy objectives, during progression towards commissioning and beyond; and
- » the assigned level of risk and value to projects such as the expanded central rigour and scrutiny applied to projects under the Government's High-Value, High-Risk (HVHR) strategy.

These sources of diversity are not mutually exclusive. Individual projects are likely to exhibit more than one characteristic or attribute. In addition, there will normally be an operational element to asset projects which would require consideration if an interested party desired a total picture of a particular project.

It is also useful to consider the extent of the above diversity in conjunction with the financial magnitude of annual public sector investment programs in Victoria. As identified in the Government's *2012-13 Financial Report*, net infrastructure investment for 2012-13 (net of asset sales and other asset inflows) totalled \$5.2 billion in the general government sector. This figure includes contributions

to the public non-financial corporations (PNFC) sector.⁴⁴⁰ Aggregate 2012-13 infrastructure investment for the total Victorian public sector was \$6.9 billion.⁴⁴¹

External reporting by public sector agencies on the management of asset investments is a key element of their public accountability obligations to Parliament. The financial materiality of annual asset investments in the public sector and the breadth of diversity of individual asset projects reinforce the importance of effective reporting to Parliament on the progressive and final outcomes for such projects.

FINDING: The financial magnitude of annual asset investments in the public sector coupled with the breadth of diversity of individual asset projects reinforce the importance of effective reporting by agencies to Parliament on progressive and final outcomes achieved for such projects.

7.3

Availability of wide-ranging central guidance to public sector agencies to assist their management of asset projects

7.3.1

Guidance to support the management and delivery of asset projects across the public sector

As recognised by the Committee in its December 2012 report on infrastructure planning and delivery in Victoria, extensive guidance is available to Victorian agencies on the management of asset projects.⁴⁴² A core element of this guidance is the *Investment Lifecycle and High Value/High Risk Guidelines*. These guidelines have been subject to periodic revision by the Department of Treasury and Finance (DTF), including integration of the HVHR scrutiny framework established by the Government in 2011. They are supported by a range of other key documentation, devised by DTF, including an Investment Management Standard and the Gateway Review Process.

For PPPs and Alliances, the guidance material is equally extensive. Separate guidance material is in place for these two distinct categories of asset projects. The respective guidance documents have national application and were founded on Victoria's policies for PPPs and Alliances. They have received widespread recognition and reflect the leading edge nature of Victoria's early work in these emerging areas.

All of the above central guidance material is readily accessible by agencies on DTF's website.

DTF's lifecycle and HVHR guidelines document is structured according to five key stages of the asset investment cycle (see Figure 7.1).

These stages align with and complement the various decision points for asset projects under the Gateway Review Process.

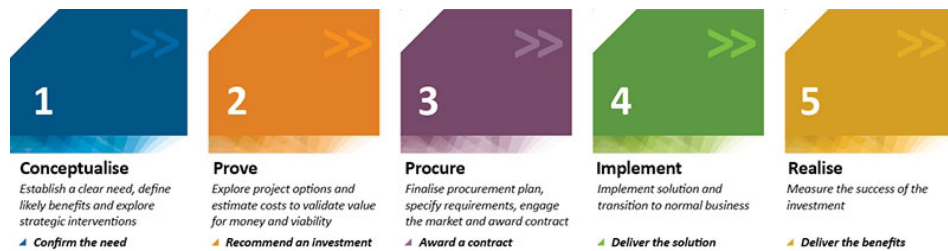
⁴⁴⁰ Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, pp.10-11

⁴⁴¹ *ibid.*, p.18

⁴⁴² Public Accounts and Estimates Committee, *Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects*, December 2012, pp.20-2

Figure 7.1

Stages of the investment lifecycle



Source: Department of Treasury and Finance, *Investment Lifecycle and High Value High Risk Guidelines - Overview*, n.d., p.5

The introductory narrative to the guidelines states that ‘...they help shape proposals, inform investment decisions, monitor project delivery and track the benefits projects achieve. Using the guidelines will help ensure government investments provide maximum benefit to Victoria’.⁴⁴³

Stages 4 and 5 focus on the delivery phases of asset management. The guidelines emphasise the importance of quality monitoring of performance, beyond core schedules and budgets, as agencies progress through these phases.

Under stage 4 on implementation, the guidelines advise that:⁴⁴⁴

During the period when the solution is being implemented the project team will be focussing on managing the project delivery, but the investor [the person with accountability and responsibility for a project] needs to be monitoring more than just schedules and budgets. This broader governance focus is on: whether the solution is and remains robust in the period before moving into operation; how ready the organisation is to implement the business changes that occur before and after delivery; the effectiveness of contract management arrangements that are in place or being arranged; and whether there is a basis for evaluating ongoing performance.

Further, as part of the final stage 5 on realisation of benefits, the guidelines convey a key message on performance outcomes for asset projects in that:⁴⁴⁵

Frequently once the asset is commissioned and in operation, the investment is observed from the perspective of budget and schedule outcomes. From an investment perspective these are not the most important measures of success. The more important question is: Did the investment result in a value-for-money outcome?

Complementing this stage 5 guidance, a section within Victoria’s Investment Management Standard addresses the steps involved in monitoring and measuring the delivery of benefits. It poses a core question for managing agencies on whether an investment is delivering the key performance indicators consistent with the agency’s benefit management plan. The Standard is supported by a template to guide agencies in this important process.⁴⁴⁶

⁴⁴³ Department of Treasury and Finance, *Investment Lifecycle and High Value High Risk Guidelines - Overview*, n.d., p.5

⁴⁴⁴ *ibid.*, p.32

⁴⁴⁵ *ibid.*, p.34

⁴⁴⁶ Department of Treasury and Finance, *Investment Management Standard: A Guide for Victorian Government Departments and Agencies*, May 2013, pp.19-20

The Committee considers that adherence to established cost budgets and forecast timeframes for asset investments constitutes a fundamental measure of a project's performance. The Committee also supports the broader emphasis within Victoria's asset management guidance on the attainment of outcomes consistent with each project's expected community benefits.

FINDING: Adherence to cost budgets and forecast timeframes are fundamental measures of an agency's performance in managing asset projects. As recognised in the Government's lifecycle guidance, the management focus within agencies should extend beyond these measures to also encompass attainment of value for money outcomes and expected community benefits.

7.3.2

Emphasis within central asset management guidance on strengthening the calibre of internal decision-making and reporting

There is a consistent focus within the key documents and supporting toolkits and templates making up the Government's suite of asset management guidance material on supporting internal decision-making and reporting within managing agencies. By extension, this internal focus applies to periodic status reporting on projects, and particularly HVHR projects, to DTF.

As identified in the above paragraphs, the expected end result of this approach, in terms of achieving optimum outcomes from agencies' compliance with the guidance material, is identified at various points in the documentation. This over-arching goal is summed up succinctly in the guidelines in the following terms:⁴⁴⁷

The lifecycle guidelines aim to provide practical guidance and tools that assist in the process and, in turn, promote the best investment outcome for Victoria.

Further, the mandatory application of all Gateway decision points under the Gateway Review Process to HVHR-designated projects reflects the Government's desire to ensure that expanded HVHR scrutiny and support for such projects will lead to their on-time and on-budget delivery.⁴⁴⁸

The Committee notes the importance directed within Victoria's asset management guidance to structured internal monitoring of a project's performance during all phases of the lifecycle stages, with the aim of maximising investment outcomes for the State.

Similar principles are emphasised in the national guidance documents relating to PPPs and Alliances.⁴⁴⁹ The national PPP guidelines are supplemented in Victoria by further guidance incorporated within the Government's *Partnerships Victoria Requirements*.⁴⁵⁰ This additional guidance for agencies addresses Victoria-specific requirements where the National Guidelines for PPPs allow flexibility. The

⁴⁴⁷ Department of Treasury and Finance, *Investment Lifecycle and High Value High Risk Guidelines - Overview*, n.d., p.5

⁴⁴⁸ Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.3

⁴⁴⁹ See, for example, Infrastructure Australia, *National Public Private Partnerships – Volume 2: Practitioners' Guide*, March 2011.

⁴⁵⁰ Department of Treasury and Finance, *Partnerships Victoria Requirements*, May 2013

Treasurer's foreword to the Victoria-specific requirements states that the aim is to '*outline a consistent approach to tender processes and governance structures to facilitate efficient and effective decision-making*'.⁴⁵¹ DTF has included significant revisions to the Victorian document following industry and practitioner consultation.

The objective in the Government's guidance material of optimising outcomes for asset investments is directly complementary to the interests of Parliament and the community as key external stakeholders.

The Committee considers it would be desirable if there were a strong accountability link between outcomes from asset investments reported on internally by agencies to Government and information reported externally by those agencies to Parliament and the community. The Committee has expanded on this link in Section 7.5 of this report.

In pursuing this line of analysis, the Committee has examined the current external reporting practices for Victoria's asset investments both centrally and at agency level. The purpose of this examination, which included coverage in the budget papers, was to identify whether any potential existed for raising the standard of external reporting, drawing on the wide-ranging assistance available to agencies to support their internal reporting on asset projects.

FINDING: The Government's extensive guidance material supporting internal management and reporting of asset projects are aimed at optimising outcomes for asset investments. This aim is complementary to the interests of Parliament and the community as key external stakeholders.

FINDING: As a practice, there should be a strong accountability link between outcomes from asset management reported on internally by agencies to Government and information reported externally by agencies to Parliament and the community.

7.4

Current reporting practices for asset investments

7.4.1

Features of central reporting on asset investments

Coverage of asset investments in the annual budget papers

The Government's budget papers constitute the prime medium for informing Parliament and the community on planned asset investments over the ensuing year and the forward estimates period. Departments usually issue budget releases on their particular budget allocations. Their responsibility, however, does not extend to publishing supplementary budget material in their own right.

Accordingly, there is extensive information on departmental asset investments addressed in the annual budget papers. This information includes:

⁴⁵¹ *ibid.*, p.1

- » forecast funding for new asset initiatives for the budget year and across the forward estimates (in the service delivery budget paper);
- » the related departmental output for each new asset funding initiative (also in the service delivery budget paper); and
- » tabular presentations (in the state capital program budget paper) of new and existing asset projects. These disclose their total estimated investment, estimated expenditure at end of previous year, estimated expenditure in the budget year, remaining expenditure and, first included in the 2013-14 budget papers, estimated completion date.⁴⁵²

The tabular presentations on new and existing asset projects detailing the State's capital program extend beyond departmental projects to include projects managed by agencies within the PNFC sector.

Similar to the position with departmental projects, the reported information includes estimated expenditure on individual projects in the budget year, the remaining expenditure and expected completion dates.

This budget paper therefore presents a public sector-wide picture of existing and new asset projects. Its coverage is focused on planned cost budgets and expected completion dates as well as the likely point of progress at the end of the budget year.

The capital program budget paper also includes some narrative on PPPs. This narrative mentions the number of PPPs, those that have been commissioned and a reference to any likely new projects.⁴⁵³ More detailed information on PPPs is available on DTF's website.⁴⁵⁴

FINDING: The budget papers present extensive information on the estimated cost and completion dates for all new and existing capital projects other than public private partnerships (PPPs). They also include some descriptive narrative on the likely number and status of PPPs during the budget year, with more detail on each PPP available on the Department of Treasury and Finance's website.

Coverage on asset investments in the Annual Financial Report

The Annual Financial Report, incorporating government-wide audited financial statements, consolidates financial outcomes for Victoria. The report's commentary and analyses on such outcomes, beyond the detailed material comprising the actual financial statements, are high-level in nature.

The Committee's examination of the format and content of the Annual Financial Report and reports for previous years indicates that their format has been relatively static over time. In addition, the extent of commentary on particular aspects of annual financial outcomes, beyond the detailed presentation of audited financial statements, is reasonably concise.

⁴⁵² Budget Paper No. 4, *2013-14 State Capital Program*, May 2013, Chapter 2

⁴⁵³ *ibid.*, pp.7-8

⁴⁵⁴ Available at: Department of Treasury and Finance, 'Infrastructure Delivery', <www.dtf.vic.gov.au/Infrastructure-delivery>, accessed 9 April 2014.

By way of illustration on this latter point, commentary on infrastructure investment in the *2012-13 Financial Report* comprised:

- » For the general government sector:⁴⁵⁵
 - › three brief paragraphs on the nature, purpose and level, in dollar terms, of infrastructure investment;
 - › a chart showing the trend of net infrastructure investment since 1994-95; and
 - › listings of the titles of 'major' projects, under the heading of '*The Government's infrastructure scorecard 2012-13*', showing four projects completed during the year, seven in progress and seven started in 2012-13.
- » For the State of Victoria:⁴⁵⁶
 - › two brief paragraphs on the level, in dollar terms, of total infrastructure investment and on the names of key projects in the PNFC sector.

This condensed form of commentary indicates to the Committee that, beyond extensive reporting of information required under accounting standards for the audited financial statements, the Annual Financial Report is designed to serve as an overview document on financial outcomes.

A key principle evident from this approach is that users interested in more extensive information on the results and performance of particular sectors on asset and related operational matters, and entities within those sectors, should refer to other prime accountability sources, and particularly the annual reports of relevant government bodies.

This principle reflects the fact that responsibility for well-structured external disclosures on annual performance, drawing on available guidance, and for implementation of ongoing enhancements to reporting practices clearly rests with individual agencies.

Also derived from this principle, there is a sharp contrast between the extensive material on prospective strategies and funding directions issued centrally in the annual budget papers and the condensed central focus on actual results communicated in the Annual Financial Report.

Each year, the Auditor-General has a statutory responsibility to present to Parliament a report on the Annual Financial Report. The Auditor-General's presentation of issues reported to Parliament is dependent on the seriousness of matters identified during the audit process. The 2012-13 report by the Auditor-General included two chapters on particular asset projects, one on non-PPPs and one on PPPs. The audit analysis centred mainly on progress against targeted cost budgets supplemented by some comment on timelines. The commentary was reasonably favourable with no major criticism reported.

⁴⁵⁵ Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, pp.10-12

⁴⁵⁶ *ibid.*, p.18

FINDING: The Annual Financial Report provides high-level global commentary on asset investments across the public sector.

FINDING: For key stakeholders such as Parliament and the community, the prime accountability documents prepared by agencies, and particularly their annual reports, are the key sources of information on agencies' performance in managing asset projects.

7.4.2

Asset reporting at agency level

Current asset reporting requirements

A key guidance document available to departments to support development of their annual reports is the annual Model Report. This report is periodically updated by DTF as circumstances change and opportunities arise to further enhance departmental annual reporting. While directly applicable to departments, all public sector entities are encouraged to follow the Model Report.

The 2012-13 Model Report included a new section on reporting of capital projects. This addition advises departments in the following terms:⁴⁵⁷

The Department of Treasury and Finance, on behalf of all portfolio departments, publishes annually on the State's asset investment program in the annual budget as part of BP4 State Capital Program. Departments should refer to the most recent version of the publication in their annual reports to raise awareness of the information disclosed on the delivery of departmental capital projects.

This amendment effectively requires departments to report on their asset projects in a manner consistent with the presentation of material in the budget papers outlining the Victoria's proposed capital program. Section 7.4.1 of this report outlined the usual contents of that budget paper which focuses on budgeted cost, total estimated investment and planned completion dates for new and existing projects.

The Committee has previously reported to Parliament on the calibre of asset reporting in the public sector. In its recent report, the *Review of the Performance Measurement and Reporting System*, the Committee identified that the above addition to the Model Report originated from an earlier recommendation of the Committee. In this report, the Committee has recommended that DTF further widen departmental reporting requirements on completed asset projects. This recommendation identifies the format of reporting by the Department of Environment and Primary Industries for its completed projects as a suitable model for enhancing departmental reporting practices.⁴⁵⁸

⁴⁵⁷ Department of Treasury and Finance, *2012-13 Model Report for Victorian Government Departments*, April 2013, p.21

⁴⁵⁸ Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System*, March 2014, p.115, Recommendation 51

There is currently no explicit requirement for departments to include in their annual reports, in a standard format, details of their performance over the previous twelve months in managing major asset projects against established medium and longer-term project objectives such as:

- » for current projects, key immediate and future milestones, including but extending beyond cost and time parameters, that were formulated at the project's inception; and
- » for completed projects, the extent of realisation of expected community benefits.

Agencies within the PNFC sector are statutory bodies with responsibilities specifically derived from their enabling legislation. They therefore have greater autonomy than departments, subject to alignment with government policy objectives, in formulating their corporate and strategic directions and reporting annually on their progress towards such directions.

Reporting on asset projects by agencies within these two outer sectors is primarily dependent on corporate and strategic decisions reached by each agency.

Analysis of reporting practices in 2012-13 for selected asset projects

It was against the above background of extensive internal guidance to support asset management and somewhat limited associated external reporting requirements, that the Committee analysed the manner in which some selected asset projects had been reported in the 2012-13 annual reports of the responsible agencies.

The aim of this exercise was to determine the extent to which such external reporting practices adequately reflected the performance of agencies in managing each project and was of a standard necessary to fully meet the information needs of Parliament and the community.

The results of the above analysis are presented in tabular format in Appendix A7.1.

This analysis centred on a number of projects examined by the Committee as part of its research work for Chapter 6 of this report on asset investment in the public sector during 2012-13. The selected projects mainly comprise those projects where the Committee had sought responses from agencies on the more significant variances between budgeted and actual expenditure or where their total estimated investment had changed during the year.

The principal conclusions reached by the Committee from this 2012-13 analysis are:

- » reporting on asset projects varies across agencies, with some agencies presenting more informative and useful material to Parliament than others;
- » particularly useful information has been reported by the Goulburn-Murray Rural Water Corporation, which is considered to equate with better disclosure practice, both in its annual report and a dedicated website, in respect of the *Connections Project*;
- » the Department of Environment and Primary Industries includes well-structured information on the final cost and performance against timelines for its completed projects;

- » for current projects, it is not common for agencies to report on progress against all key milestones, including those relating to works programs, applicable to the full lifecycle of projects; and
- » for completed projects, there is limited reporting by agencies on the extent of progressive realisation of expected community benefits.

The Committee has also identified that dedicated websites and webpages have been established by some agencies for particular projects. For example, the dedicated website for the *Regional Rail Link* includes comprehensive information on the project. In most cases, where there is use of dedicated websites and webpages for projects, brief references only to the management and performance of projects have been incorporated in the annual reports of agencies.

For several projects, for example, the *Southbank Cultural Precinct-Redevelopment* project, the engaged private sector construction contractors have established dedicated webpages with quite extensive material disclosed on project descriptions and the key elements of their contractual responsibilities. These communication avenues are valuable supplements to agency disclosures but do not constitute official project pronouncements of the Government.

The Committee also observed that, in the case of the project relating to the recruitment and engagement of Protective Services Officers (PSOs), prime responsibility appears to rest with Victoria Police under either direction or overview by the Department of Justice. This project has distinct operational and capital (police station infrastructure) components but there is no consolidated reporting by a lead agency on the totality of the project's progress, embracing both the operational and capital elements.

There is also a separate but related project for PSOs. This project involves railway station infrastructure under the responsibility of the Department of Transport, Planning and Local Infrastructure/Victorian Rail Track. In the absence of reporting links between these two projects, notwithstanding that they are separate in nature, a picture of the totality of costs and other aspects arising from the PSO initiative would not be readily available to Parliament.

A number of the agencies responsible for the projects selected for analysis have ongoing involvement in the development and delivery of major projects. They have deep-seated experience in this important field. The Committee is therefore of the view that its observations arising from its analysis of 2012-13 asset reporting by these agencies are likely to be representative of the wider position across the public sector.

FINDING: The external asset reporting practices of several public sector agencies analysed by the Committee vary between agencies and do not focus specifically on performance against established milestones applicable to each stage of a project's lifecycle.

7.5

Scope for further strengthening asset reporting practices across the public sector

The Committee considers there would be merit in a greater level of consistency in the external reporting by agencies on their management of asset projects. It considers there is also potential to expand such reporting. This would put Parliament and the community in a stronger position to assess both the extent to which the expected value-adding outcomes of asset projects have been progressively achieved, and whether they have been achieved in an optimal manner.

The Committee considers that current reporting could be improved by drawing on the extensive guidance currently available to agencies to support their internal decision-making and management of progressive performance for asset projects. In this way, existing elements of that framework, such as key performance indicators, could form the basis for formulating minimum external reporting standards. Such standards should apply to all public sector agencies so that there is a minimum level of consistency in reporting on asset projects for all three sectors of government in Victoria.

The Committee is therefore of the view that a standardised external reporting framework for asset projects could apply across the public sector to:

- » all non-PPP but HVHR-designated projects;
- » all non-HVHR projects with a total estimated investment greater than \$50 million; and
- » all projects managed under alliancing arrangements with a total estimated investment greater than \$50 million.

This framework should facilitate uniform reporting by agencies in their annual reports of their performance in managing projects in these categories. The ambit of standard reporting should extend beyond core cost and time targets set for the reporting year to encompass:

- » key milestones formulated for the entire lifecycle of projects aligned with the stages identified in the Government's asset management guidance material; and
- » for completed projects, the degree of realisation of expected community benefits articulated at the time of the project's inception.

The Committee considers that the framework should be separately tailored to PPPs in a manner which meets the contemporary expectations of Parliament and the community for such projects.

FINDING: Greater uniformity in public sector asset reporting would result from the formulation of minimum reporting standards, applicable to all agencies. Such standards could extend beyond performance against cost and time budgets to also encompass key milestones formulated for the entire lifecycle of projects, including the progressive realisation of community benefits for completed projects.

RECOMMENDATION 7: The Department of Treasury and Finance formulate minimum external reporting standards for major asset projects which are applicable to all public sector agencies. Such standards should encompass key milestones, including those of a works nature, established by agencies for the full lifecycle of projects. They should be designed in a manner which enables Parliament and the community to exercise judgement on the overall effectiveness of agencies in managing asset projects and achieving optimal outcomes.

RECOMMENDATION 8: The framework for standardised asset reporting in the Victorian public sector be separately tailored to address the specific features of public private partnerships. These features include direct involvement by the private sector in major partnership functions and the associated responsibilities of managing agencies for achieving optimal project outcomes.

RECOMMENDATION 9: Where responsibility for the development and delivery of a project and/or related projects is spread across several agencies, the Department of Treasury and Finance should nominate a lead agency to include a consolidated report in its annual report on the totality of the project's performance over the reporting period, including both capital and operational components.

THE GOVERNMENT'S RESPONSES TO PREVIOUS RECOMMENDATIONS OF THE COMMITTEE

8.1

Introduction

In this chapter, the Committee addresses action taken by the Government in response to recommendations made in the *Report on the 2011-12 Financial and Performance Outcomes*. It also assesses progress in the implementation of recommendations made in the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*.

This chapter examines the following:

- » How did the Government respond to the Committee's recommendations in its latest report on outcomes? (Section 8.2)
- » How many of these recommendations have been implemented to date? (Section 8.3)
- » How many of the recommendations from the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes* have been implemented? (Section 8.4)

As part of this inquiry, the Committee sought further details through questionnaires sent to departments regarding the implementation of supported recommendations.

The Government's responses to the Committee's recommendations and the responses by departments to the questionnaire are published on the Committee's website (www.parliament.vic.gov.au/paec).

8.2

Responses to recommendations

The Committee made 18 recommendations in the *Report on the 2011-12 Financial and Performance Outcomes*. The Government supported 15 (83 per cent) of these recommendations. At the time of this report, four recommendations have been either fully or partially implemented by the Government.

Figure 8.1 compares this level of support to the responses to the previous report on the State's financial and performance outcomes.

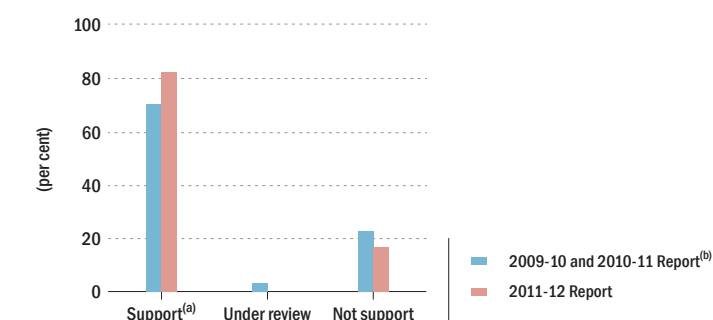
The Committee is pleased to note an increase in the proportion of supported recommendations between the two reports.

The Committee also notes that none of the responses to the *Report on the 2011-12 Financial and Performance Outcomes* were classified as 'under review'.

The Committee welcomes the Government's level of support for its recent recommendations. The extent to which this support is reflected in implementation action is addressed in Section 8.3 of this report.

Figure 8.1

Government responses to the Committee's recommendations made in Financial and Performance Outcomes reports



(a) Includes 'support', 'support in principle' and 'support in part'.

(b) Two recommendations are not included as they referred to processes already implemented by the Government that the Committee was unaware of at the time of the report.

Sources: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 109th Report to the Parliament – Report on the 2009-10 and 2010-11 Financial and Performance Outcomes, tabled 19 October 2012; D. Pearson, Victorian Auditor-General, correspondence received by the Committee 1 June 2012; and Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 115th Report to the Parliament – Report on the 2011-12 Financial and Performance Outcomes, 8 May 2013, received 30 October 2013.

FINDING: The Committee made 18 recommendations in its *Report on the 2011-12 Financial and Performance Outcomes*. The Government supported 15 of these recommendations (83 per cent), a position welcomed by the Committee.

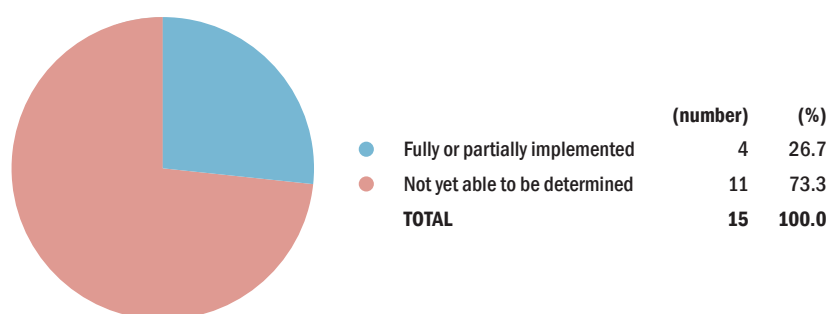
8.3

Implementation of recommendations

The Committee assessed the implementation of the 15 recommendations made in the *Report on the 2011-12 Financial and Performance Outcomes* that were supported by the Government (see Figure 8.2).

Figure 8.2

Implementation to date of the recommendations in the *Report on the 2011-12 Financial and Performance Outcomes* that were supported



Source: Public Accounts and Estimates Committee

After analysing the Government's responses and additional information sought from the relevant departments, the Committee has identified that four of the recommendations that were supported have been either fully or partially implemented to date.

The Committee also determined that it is not possible to assess the implementation of the remaining 11 recommendations because:

- » publications referred to in the recommendations have not been prepared since the Government's response was tabled;⁴⁵⁹ or
- » the circumstances that gave rise to the recommendations have not been repeated.

Of the 15 recommendations that were supported, 13 were addressed to the Department of Treasury and Finance, one to the State Services Authority and one to multiple recipients (The Department of Treasury and Finance, the Department of Premier and Cabinet, the Department of Justice and the Department of Transport, Planning and Local Infrastructure).

As noted above, there are cases where the implementation of recommendations cannot be assessed until the release of specific Government publications such as the budget papers, the Annual Financial Report and departments' annual reports.

Table 8.1 shows that there are also instances where the Government supported the Committee's recommendations but its responses did not specify in more detail when and how the recommendations will be implemented once supported.

Table 8.1

Recommendations supported by Government where responses do not specify when or how recommendations will be implemented

Recommendation	Government response	Action taken to date and commitment to further action
8. The Department of Treasury and Finance ensure that its guidance is clear, consistent and unambiguous regarding who is ultimately responsible for performance measures, targets and the expected outcomes published in the budget papers.	'Support'	<i>'The Department of Treasury and Finance will continue to review and seek to improve the quality of its guidance material to ensure responsibilities are clear.'</i>
10. The Government ensure that appropriate oversight mechanisms are in place to monitor whether or not departments successfully achieve the productivity savings agreed to in enterprise bargaining agreements. This should include public reporting of quantified productivity improvements where possible.	'Support in principle'	<p><i>'The Government ensures the productivity savings used to fund enterprise bargaining agreements are fiscally sustainable and result in measurable improvements in service delivery, workforce productivity and reform to comply with the Government's Public Sector Workplace Relations Policies 2012.'</i></p> <p><i>The Government does not currently require public reporting of quantifiable productivity improvements specifically relating to enterprise bargaining agreements.'</i></p> <p><i>The Department of Treasury and Finance will continue to review and seek opportunities to enhance the way productivity savings are monitored to improve workplace efficiency.'</i></p>

⁴⁵⁹ Publications such as the budget papers, annual reports, the Annual Financial Report and Government guidance to departments; for further information on the release dates of these documents see Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System*, March 2014, pp.13-14

Recommendation	Government response	Action taken to date and commitment to further action
11. As reductions in staff numbers continue, the State Services Authority monitor and report to the Government on whether the proportions of public service employees in the different classifications are efficient and appropriate to service delivery needs.	'Support in principle'	<i>'The Public Administration Act 2004 vests responsibility for advice on matters relating to Departmental employment arrangements to Departmental Secretaries. The SSA will continue to support Departments by monitoring overall staff numbers in different classifications.'</i>

Sources: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 115th Report on the 2011-12 Financial and Performance Outcomes, received 30 October 2013, pp.4-5; and departmental responses to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire.

The Committee advocates that future responses citing planned review action as an element of the implementation process also specify, to the extent possible, details of the proposed action and intended timelines. Such action would assist the Parliament's assessment of the adequacy of Government responses to the Committee's recommendations.

FINDING: Of the 15 recommendations made by the Committee in the *Report on the 2011-12 Financial and Performance Outcomes* that were supported by the Government, four have already been fully or partially implemented. The Committee is not yet able to assess the status implementation action taken under the remaining 11 recommendations.

FINDING: At times, responses supporting the Committee's recommendations make reference to proposed review action as a component of the intended implementation process. Some responses of this nature do not identify specific details of the cited review action and associated timelines. The Parliament's consideration of such responses would be assisted if they incorporated, to the extent possible, more specific detail.

RECOMMENDATION 10: Government responses supporting the Committee's recommendations that cite proposed review action include, to the extent possible, specific details of the planned reviews and their associated timelines. This approach would assist the Parliament's consideration of the responses.

8.4

Implementation of recommendations from the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*

The Committee's *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes* contained 65 recommendations.⁴⁶⁰ Of this number, 46 had some level of support by either the Government or the Auditor-General. In all, there were 24 supported recommendations, 18 'supported in principle' and 4 'supported in part'.⁴⁶¹

8.4.1

Supported recommendations

In its May 2013 report last year, the Committee noted the progress towards implementing of the 46 supported recommendations.

For the purpose of its updated assessment, the Committee examined subsequent budget papers, annual financial reports, public entities' annual reports and the departments' responses to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire.

As shown in Table 8.2, the Committee's updated analysis of this information identified that an additional 25 recommendations have been fully or partially implemented, the implementation of three is not yet able to be determined and four have not yet been implemented. An additional recommendation has been considered by the Committee as no longer applicable.⁴⁶²

Table 8.2**Implementation status of the supported recommendations^(a) in the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, May 2013 and April 2014**

Implementation status	Position at May 2013	Position at April 2014
Fully implemented	10	23
Partially implemented	3	15
Not yet able to be determined ^(b)	25	3
Not implemented to date	8	4
No longer relevant	0	1
Total	46	46

(a) Does not include Recommendations 15 and 65, classed as 'under review'.

(b) Classified separately in the previous report as 'unable to be determined' and 'under development'.

Source: Committee calculations based on Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 109th Report to the Parliament – Report on the 2009-10 and 2010-11 Financial and Performance Outcomes, tabled 19 October 2012.

Appendix A8.1 shows the details of the recommendations which have not been implemented to date.

460 This includes 14 recommendations addressed to the Auditor-General's Office.

461 Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes*, May 2013, p.88

462 This Recommendation has been rendered as no longer applicable due to a change in the Government's definition of 'consultants'. For further information see Recommendation 17 of the Committee's *Report on the 2011-12 Financial and Performance Outcomes*, tabled on 8 May 2013, pp.90-1

FINDING: Further analysis by the Committee has identified that of the 46 recommendations made by the Committee in its *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, 23 have been fully implemented and 15 have been partially implemented.

8.4.2

Recommendations under review

The Committee's May 2013 report indicated that two recommendations were under review.⁴⁶³ The Committee has now identified that one was implemented after one year. For the second recommendation, it is not possible for the Committee to determine if it has been implemented as the relevant report from the State Services Authority (SSA) is not yet published (see Table 8.3).

Table 8.3

Implementation of the recommendations 'under review' in the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, April 2014

Recommendation	Government response	Implementation status	Department's evidence on implementation
15. The State Services Authority investigate and report publicly on the reasons for the increase in executives' remuneration packages and identify whether the increased packages are matched by increased work value.	'Under review' <i>'Preliminary research undertaken by the State Services Authority (SSA) provides analysis on executive remuneration trends. The Government will determine whether undertaking work value assessments for VPS executive officer positions is warranted.'</i>	Not yet able to be determined	<i>'DPC's progress is proceeding consistent with the Government's response tabled in the Parliament on 19 October 2012.</i> <i>The SSA will report on these matters in the State of the Public Sector Report 2012-13'</i>
65. The Government reconsider implementing (via appropriate guidance material) the recommendations noted in Table 9.3 that were accepted by the previous Government and to be implemented as part of the Public Finance and Accountability Bill.	'Under review' <i>'The Government is committed to the continued enhancement of Victoria's Financial Management Framework. As such, the Government will continue to develop and implement those enhancements that align with its financial management reform agenda, including those outlined in table 9.3 where relevant.'</i>	Implemented	<i>'A suite of new supply policies to drive procurement reform were gazetted on 7 February 2013. The policies are supported by guidelines, tools and templates'</i> ...

Sources: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 109th Report to the Parliament – Report on the 2009-10 and 2010-11 Financial and Performance Outcomes, tabled 19 October 2012; Department of Treasury and Finance, response to the Committee 2011-12 Financial and Performance Outcomes General Questionnaire, received 6 March 2013, p.51; Department of Premier and Cabinet, response to the Committee 2012-13 Financial and Performance Outcomes General Questionnaire, received 8 November 2013, p.32; Department of Premier and Cabinet, response to the Committee 2011-12 Financial and Performance Outcomes General Questionnaire, received 4 February 2013, pp.45-6

463 Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes*, May 2013, p.88

FINDING: The Government indicated that two recommendations from the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes* were under review. One has since been implemented. For the remaining recommendation, it is not possible to determine the status of its implementation until the release of the *State of the Public Sector Report 2012-13*.

APPENDIX TO CHAPTER 1

INTRODUCTION

Appendix A1.1 Return dates of 2012-13 Financial and Performance Outcomes General Questionnaire (distributed 24 September 2013)

Department	Due date	Extension granted until	Received
Department of Education and Early Childhood Development	8 November 2013	Not officially requested	12 November 2013
Department of Environment and Primary Industries (including Department of Primary Industries and water entities)	8 November 2013	15 November 2013	18 November 2013
Department of Health	8 November 2013	28 November 2013	28 November 2013
Department of Human Services	8 November 2013	19 November 2013	19 November 2013
Department of Justice	8 November 2013	-	8 November 2013
Department of Premier and Cabinet	8 November 2013	-	8 November 2013
Department of State Development, Business and Innovation	8 November 2013	15 November 2013	8 November 2013
Department of Treasury and Finance	8 November 2013	Not officially requested	6 December 2013
Department of Transport, Planning and Local Infrastructure (including Department of Planning and Community Development)	8 November 2013	15 November 2013	18 November 2013
Parliamentary Departments	8 November 2013	Not officially requested	12 November 2013
Victorian Auditor-General's Office	8 November 2013	-	8 November 2013

Appendix A1.2 Departments and agencies to which the Committee sent the 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire (distributed 28 November 2013)

Department	Due date	Extension granted until	Received
Department of Education and Early Childhood Development	31 January 2014	-	31 January 2014
Department of Environment and Primary Industries (including Department of Primary Industries and water entities)	31 January 2014	Not officially requested	13 February 2014
Department of Health	31 January 2014	7 February 2014	10 February 2014
Department of Human Services	31 January 2014	7 February 2014	7 February 2014
Department of Justice	31 January 2014	4 February 2014	5 February 2014
Department of Premier and Cabinet	31 January 2014	Not officially requested	6 February 2014
Department of State Development, Business and Innovation	31 January 2014	-	31 January 2014
Department of Treasury and Finance (including State Electricity Commission of Victoria, Treasury Corporation of Victoria, Victorian Managed Insurance Authority)	31 January 2014	Not officially requested	4 February 2014

Department	Due date	Extension granted until	Received
Department of Transport, Planning and Local Infrastructure (including Department of Planning and Community Development and Public Transport Victoria)	31 January 2014	5 February 2014	6 February 2014
Parliamentary Departments	31 January 2014	Not officially requested	7 February 2014

APPENDICES TO CHAPTER 2

OVERALL FINANCIAL OUTCOMES

Appendix A2.1 Budget estimates and actual results for key elements of the public sector as a whole

	2012-13 Budget (\$ million)	2012-13 Actual (\$ million)	Variance (\$ million)	Variance (per cent)
REVENUE				
Grants	22,124.6	21,790.4	-334.2	-1.5
Taxation revenue	15,445.7	15,184.7	-261.0	-1.7
Dividends and income tax equivalent and rate equivalent revenue	440.4	610.9	170.5	38.7
Sales of goods and services	13,246.3	12,896.9	-349.4	-2.6
Interest revenue	1,027.6	970.4	-57.2	-5.6
Other revenue	2,507.1	2,749.6	242.6	9.7
TOTAL	54,791.7	54,203.0	-588.7	-1.1
OUTPUT EXPENDITURE				
Interest expense	2,680.7	2,538.6	-142.1	-5.3
Grants and other transfers	5,789.2	5,398.3	-390.9	-6.8
Other output expenditure ^(a)	48,395.1	48,752.9	357.8	0.7
TOTAL	56,865.0	56,689.8	-175.2	-0.3
ASSET FUNDING				
Depreciation	4,282.8	4,131.6	-151.2	-3.5
Net operating balance	-2,073.4	-2,486.8	-413.4	-19.9
Sales of non-financial assets	615.3	406.3	-209.0	-34.0
Net borrowings	5,274.3	2,981.8	-2,292.5	-43.5
Net cash flows from investments in financial assets for policy purposes	-122.7	262.6	385.3	-314.0
ANNUAL ASSET INVESTMENT				
Purchases of non-financial assets	8,567.7	7,597.8	-969.9	-11.3

(a) 'Other output expenditure' includes: Employee expenses; Superannuation interest expense; Other superannuation expenses; Depreciation; and Other operating expenses.

Sources: Department of Treasury and Finance, 2012-13 Financial Report, October 2013, pp.59, 63; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, pp.65, 68-9

Appendix A2.2 Budget estimates and actual results for key elements of the general government sector

	2012-13 Budget (\$ million)	2012-13 Actual (\$ million)	Variance (\$ million)	Variance (per cent)
REVENUE				
Commonwealth grants ^(a)	22,116.4	21,784.3	-332.1	-1.5
Taxation revenue	15,782.8	15,530.7	-252.2	-1.6
Dividends and income tax equivalent and rate equivalent revenue	1,001.9	1,341.7	339.9	33.9
Sales of goods and services	6,753.1	6,869.3	116.1	1.7
Other items of revenue ^(a)	2,702.5	3,086.9	384.4	14.2
TOTAL	48,356.7	48,612.9	256.2	0.5
OUTPUT EXPENDITURE				
Interest expense	1,725.6	1,775.3	49.8	2.9
Grants and other transfers	8,379.0	8,013.9	-365.1	-4.4
Other output expenditure ^(b)	38,097.2	38,507.2	410.0	1.1
TOTAL	48,201.8	48,296.4	94.6	0.2
ASSET FUNDING				
Depreciation	2,385.9	2,254.3	-131.6	-5.5
Net operating balance	154.9	316.4	161.5	104.3
Sales of non-financial assets	552.5	248.0	-304.5	-55.1
Net borrowings	4,122.8	3,561.5	-561.3	-13.6
ANNUAL ASSET INVESTMENT				
Purchases of non-financial assets	3,529.6	4,133.2	603.6	17.1
Net cash flows from investments in financial assets for policy purposes	2,817.2	1,316.8	-1,500.4	-53.3

(a) 'Other contributions and grants' is included in 'Other items of revenue'.

(b) 'Other output expenditure' includes: Employee expenses; Superannuation interest expense; Other superannuation expenses; Depreciation; and Other operating expenses.

Sources: Department of Treasury and Finance, 2012-13 Financial Report, October 2013, pp.25, 28, 70, 116; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, pp.5, 8, 24

Appendix A2.3 Budget estimates and actual results for key elements of the public non-financial corporations sector

	2012-13 Budget (\$ million)	2012-13 Actual (\$ million)	Variance (\$ million)	Variance (per cent)
REVENUE				
Grants	2,636.3	2,654.4	18.1	0.7
Sales of goods and services	5,445.3	4,915.7	-529.6	-9.7
Other items of revenue ^(a)	749.7	681.9	-67.8	-9.0
TOTAL	8,831.1	8,252.0	-579.1	-6.6

	2012-13 Budget (\$ million)	2012-13 Actual (\$ million)	Variance (\$ million)	Variance (per cent)
OUTPUT EXPENDITURE				
Interest expense	1,116.2	1,001.4	-114.8	-10.3
Dividends paid	556.1	720.3	164.2	29.5
Other output expenditure ^(b)	7,276.7	6,828.6	-448.1	-6.2
TOTAL	8,949.0	8,550.3	-398.7	-4.5
ASSET FUNDING				
Depreciation	1,859.4	1,838.1	-21.3	-1.1
Net operating balance	-117.9	-298.2	-180.3	152.9
Sales of non-financial assets	62.3	156.4	94.1	151.0
Net borrowings	862.7	1,053.3	190.6	22.1
Other financing (net)	2,248.2	1,046.5	-1,201.7	-53.5
ANNUAL ASSET INVESTMENT				
Purchases of non-financial assets	4,988.7	3,702.5	-1,286.2	-25.8

(a) 'Other items of revenue' aggregated here includes the following items from the State finances: Interest; Dividends and income tax equivalent and rate equivalent revenue; and 'Other revenue'.

(b) 'Other output expenditure' is calculated by the Committee by subtracting interest expense and dividends paid from the total.

Sources: Department of Treasury and Finance, 2012-13 Financial Report, October 2013, pp.58, 62; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, pp.42, 44-5

Appendix A2.4 Budget estimates and actual results for key elements of the public financial corporations sector

	2012-13 Budget (\$ million)	2012-13 Actual (\$ million)	Variance (\$ million)	Variance (per cent)
REVENUE				
Sales of goods and services	3,789.1	3,723.3	-65.8	-1.7
Interest revenue	2,518.9	2,388.6	-130.3	-5.2
Other items of revenue ^(a)	379.2	483.6	104.4	27.5
TOTAL	6,687.2	6,595.5	-91.7	-1.4
OUTPUT EXPENDITURE				
Interest expense	2,115.3	1,957.9	-157.4	-7.4
Dividends paid	284.4	440.6	156.2	54.9
Other output expenditure ^(b)	5,237.9	5,175.5	-62.4	-1.2
TOTAL	7,637.6	7,574.0	-63.6	-0.8

(a) 'Other items of revenue' aggregated here includes the following items from the State finances: Interest; Dividends and income tax equivalent and rate equivalent revenue; and 'Other revenue'.

(b) 'Other output expenditure' is calculated by the Committee by subtracting interest expense and dividends paid from the total.

Sources: Department of Treasury and Finance, 2012-13 Financial Report, October 2013, pp.59, 63; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, pp.57, 61

APPENDICES TO CHAPTER 3

REVENUE

Appendix A3.1 Components of revenue, 2012-13

Appendix A3.1.1 General government sector

Component	Budget (\$ million)	Actual (\$ million)	Variance (\$ million)	Variance (per cent)
Commonwealth grants	22,116.4	21,784.3	-332.1	-1.5
Taxation revenue	15,782.8	15,530.7	-252.2	-1.6
Dividends and similar	1,001.9	1,341.7	339.9	33.9
Sales of goods and services	6,753.1	6,869.3	116.1	1.7
Interest revenue	709.5	700.7	-8.7	-1.2
Other items of revenue ^(a)	1,993.0	2,386.3	393.3	19.7
TOTAL REVENUE	48,356.7	48,612.9	256.2	0.5

(a) 'Other items of revenue' includes: 'other contributions and grants'; 'fair value of assets received free of charge or for nominal consideration'; 'fines'; 'royalties'; 'donations and gifts'; 'other non-property rental'; and 'other miscellaneous revenue'.

Sources: Budget Paper No.5, 2012-13 *Statement of Finances*, May 2012, pp.5, 24; Department of Treasury and Finance, 2012-13 *Financial Report*, October 2013, pp.25, 70, 116

Appendix A3.1.2 Public non-financial corporations sector

Component	Budget (\$ million)	Actual (\$ million)	Variance (\$ million)	Variance (per cent)
Grants	2,636.3	2,654.4	18.1	0.7
Sales of goods and services	5,445.3	4,915.7	-529.6	-9.7
Miscellaneous revenue	749.7	681.9	-67.8	-9.0
• Interest revenue	75.6	77.2	1.6	2.1
• Dividends ^(a)	79.8	144.2	64.4	80.7
• Other items of revenue ^(b)	594.3	460.6	-133.7	-22.5
TOTAL REVENUE	8,831.1	8,252.0	-579.1	-6.6

(a) Referred to as 'dividends' in the budget papers (Budget Paper No.5, 2012-13 *Statement of Finances*, May 2012, p.42), and as 'dividends and income tax equivalent and rate equivalent revenue' in the Annual Financial Report (Department of Treasury and Finance, 2012-13 *Financial Report*, October 2013 p.58).

(b) Referred to as 'other current revenue' in the budget papers (Budget Paper No.5, 2012-13 *Statement of Finances*, May 2012, p.42), and as 'other revenue' in the Annual Financial Report (Department of Treasury and Finance, 2012-13 *Financial Report*, October 2013 p.58).

Sources: Budget Paper No.5, 2012-13 *Statement of Finances*, May 2012, p.42; Department of Treasury and Finance, 2012-13 *Financial Report*, October 2013, p.58

Appendix A3.1.3 Public financial corporations sector

Component	Budget (\$ million)	Actual (\$ million)	Variance (\$ million)	Variance (per cent)
Interest revenue	2,518.9	2,388.6	-130.3	-5.2
Sales of goods and services	3,789.1	3,723.3	-65.8	-1.7
Miscellaneous revenue	379.2	483.6	104.4	27.6
• Dividends ^(a)	352.3	460.1	107.8	30.6
• Grants	3.5	2.9	-0.6	-17.1
• Other items of revenue	23.4	20.7	-2.7	-11.5
TOTAL REVENUE	6,687.2	6,595.5	-91.7	-1.4

(a) Referred to as 'dividends' in the budget papers (Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.57), and as 'dividends and income tax equivalent and rate equivalent revenue' in the Annual Financial Report (Department of Treasury and Finance, 2012-13 Financial Report, October 2013 p.59).

Sources: Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.57; Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.59

Appendix A3.2 Commonwealth grants to the general government sector, 2012-13

	Budget (\$ million)	Actual (\$ million)	Variance (\$ million)	Variance (per cent)
General-purpose grants	11,041.7	10,989.5	-52.2	-0.5
Specific-purpose grants	11,074.7	10,794.8	-279.9	-2.5
• Specific-purpose grants for on-passing	2,784.9	2,746.3	-38.6	-1.4
• Other specific-purpose grants	8,289.8	8,048.5	-241.3	-2.9
TOTAL COMMONWEALTH GRANTS	22,116.4	21,784.3	-332.1	-1.5

Sources: Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.24; Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.70

Appendix A3.3 Concessions and subsidies 2012-13

Entity	Budget (\$ million)	Actual (\$ million)
Department of Education and Early Childhood Development ^(a)	106.8	118.1
Department of Health	604.4	628.1
Department of Human Services	384.5	378.3
Department of Transport, Planning and Local Infrastructure	5.0	3.8
Public Transport Victoria	n/a	178.2
Rural Finance Corporation	1.6	1.5
Taxi Services Commission	55.6	53.0
Transport Accident Commission	n/a	114.0
VicRoads	105.1	143.5
Victoria Police	0.0	0.5
TOTAL	1,263.0	1,619.0

(a) Financial year values are in some cases based on the previous calendar year's activity.

Sources: Departmental responses to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire

Appendix A3.4 Tax expenditures, 2012-13

Tax expenditure	Purpose	Budget (\$ million)	Actual ^(a) (\$ million)
Land tax (21 categories)	Mainly exemption for principal place of residence.	2,654	2,553
Payroll tax (12 categories)	Mainly exemption for small business and not-for-profit organisations. All firms exempt from first \$550 000 of payroll.	2,807	2,865
Gambling tax (1 category)	Clubs pay lower tax rate than hotels on EGMs.	81	70
Motor vehicle tax (5 categories)	Mainly lower registration fee for eligible beneficiaries.	92	113
Other stamp duties (5 categories)	Mainly to give land transfer duty relief to eligible home buyers and corporations who restructure their business.	354	699
Congestion levy (3 categories)	Mainly exemption for short-stay car parks.	34	36
TOTAL		6,022	6,336

(a) Figures in this column are a revised estimate. Taxes foregone are estimated using models and assumptions. Estimates are made at budget time and after the end of the budget year (i.e. eighteen months later).

Source: Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, pp.18-21. Note also that this source provides data as millions of dollars with no decimal place.

APPENDIX TO CHAPTER 5

OUTPUT EXPENDITURE AND DELIVERY

Appendix A5.1 Expenditure by government purpose classification, 2011-12 to 2012-13

Purpose	2011-12 Actual	2012-13 Budget	2012-13 Actual	Variance (2012-13 Budget against actual)	
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(per cent)
Education	12,412.1	13,987.5	12,661.5	-1,326.0	-9.5
Health	12,741.3	13,341.7	13,158.2	-183.5	-1.4
Housing and community amenities	2,869.0	2,247.6	2,543.2	295.6	13.2
Public order and safety	4,962.0	5,398.7	5,188.5	-210.2	-3.9
Social security and welfare	3,768.3	3,027.0	3,868.0	841.0	27.8
Transport and communications	5,545.1	5,064.7	5,675.8	611.1	12.1
Other ^(a)	5,013.2	5,134.7	5,201.3	66.6	1.3
TOTAL	47,311.0	48,201.8	48,296.4	94.6	0.2

(a) 'Other' combines: 'recreation and culture'; 'fuel and energy'; 'agriculture, forestry, fishing and hunting'; 'general public services'; 'mining, manufacturing and construction'; 'other economic affairs'; and 'other purposes'.

Sources: Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.77; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.29

Appendix A5.2 Government purpose classification variations, 2012-13

Government purpose classification	Original budget estimate for 2012-13	Actual for 2012-13	Explanation for any variation greater than ± 10 per cent or \$100 million
	(\$ million)	(\$ million)	
General public services	566.9	1,151.6	The variance relates to actual expenditure for superannuation expenses being reclassified from 'Other Purposes' GPC.
Public order and safety	5,398.7	5,188.5	The variance primarily relates actual expenditure for Gambling regulation (\$106.7 million) and Protecting consumer interest (\$83.4 million) programs being allocated to 'Other Economic Affairs' GPC. In addition, re-phasing of expenditure into the forward estimates (2013-14) for Emergency alert masterplan (\$16.8 million), Infringement management and enforcement services ICT (\$11.8 million) and Neighbourhood safer places program (\$10.2 million) has also contributed to the decrease in actual expenditure.
Education	13,987.5	12,661.5	The variance primarily relates to the different methodology for actual expenditure as noted above. For the Department of Education, total expenses increased by \$98 million between original budget estimate and actual result for 2012-13.
Health	13,341.7	13,158.2	The variances primarily relate to the reallocation of expenditure from 'Health' to 'Social security and welfare' GPC. In addition, a \$657.5 million increase across the two classifications largely driven by an increase in spending in the Health Sector GPC with Enterprise Bargaining Agreement wage increases and greater purchases of services from private hospitals, external to general government sector.

Government purpose classification	Original budget estimate for 2012-13 (\$ million)	Actual for 2012-13 (\$ million)	Explanation for any variation greater than ± 10 per cent or \$100 million
Social security and welfare	3,027.0	3,868.0	No explanation provided
Housing and community amenities	2,247.6	2,543.2	The variance relates to an increase in actual expenditure for costs related to the Desalination project of \$302.6 million.
Recreation and culture	648.3	735.7	The variance mainly relates to the different methodology for actual expenditure as noted above.
Fuel and energy	22.2	-	The variance relates to actual expenditure for Energy Safe Victoria allocated to 'Agriculture, forestry, fishing and hunting' GPC to more correctly reflect the nature of the expenditure.
Agriculture, forestry, fishing, and hunting	691.8	519.9	The variance primarily relates to re-phasing of a number of Energy and earth resources grants programs into the forward estimates (2013-14). The programs include the Advanced Lignite Demonstration Program (ALDP) and Green earth Energy's Geelong Geothermal large scaled demonstration program.
Mining, manufacturing, and construction	17.2	-	The actual expenditure for this GPC has been allocated to 'Agriculture, forestry, fishing and hunting' GPC.
Transport and communications	5,064.7	5,675.8	The variance relates to the different methodology for actual expenditure as noted above, as well as the change in the administrative arrangements with the establishment of Public Transport Victoria.
Other economic affairs	561.2	982.7	The variance primarily relates to Gambling regulation (\$106.7 million) and Protecting consumer interest (\$83.4 million) programs being allocated to this GPC where previously the budget has been allocated to 'Public order and safety' GPC. In addition, expenditure for Major Projects Victoria of \$66.2 million and Investment attraction and export programs of \$36.9 million has also contributed to the increase in actual expenditure.
Other purposes	2,627.1	1,811.7	The variance relates to the reclassification of superannuation expenses to 'General Public Services' GPC of \$800 million as noted above under the 'General public services' GPC.

Source: Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 6 December 2013, pp.26-7

Appendix A5.3 Outputs with costs variations exceeding +/- \$20 million, 2012-13, sorted by variance

Department	Output	2012-13 Budget (\$ million)	2012-13 Actual (\$ million)	Variance (\$ million)	Variance (per cent)	Explanations provided by departments in their annual reports, generally where variance exceeds +/- 10 per cent
DEECD	Higher education and skills	2,437.7	2,690.4	252.7	10.4	The 2012-13 Actual is primarily higher than the 2012-13 Target due to more people accessing training places through the Victorian Training Guarantee. Victorian Training Guarantee course funding is available to Victorians who meet a set of eligibility criteria.
DOH	Emergency Services	425.4	569.7	144.3	33.9	Actual outcome primarily reflects (i) a shift in classification from Admitted to Emergency resulting from change in policy for the National Activity Funding Model, and (ii) decreased depreciation resulting from the revaluation of health services' assets.
DSDBI	Tourism And Marketing	81.8	161.4	79.6	97.3	The additional expenditure in the Tourism Output relates to funding for Major Events activities including payments to the Australian Grand Prix Corporation, Australian Open Tennis, L'Oreal Fashion Festival and the Melbourne Cup Carnival.
DTPLI	Integrated metropolitan public transport services	3,084.7	3,147.0	62.3	2.0	No explanation provided by the Department.
DTPLI	Road asset management	387.9	447.5	59.6	15.5	The 2012-13 result was higher than the 2012-13 target due to additional road maintenance funding approved post the 2012-13 State Budget and flood damage restoration works.
DOJ	Policing services	2,107.6	2,144.3	36.7	1.7	No explanation provided by the Department.
DEPI	Land and Fire Management	353.2	383.5	30.3	8.6	Higher than anticipated output cost due to the intensity of the 2012-13 fire season and associated suppression activities.
DHS	Accommodation Support	744.3	769.6	25.3	3.4	No explanation provided by the Department.
DHS	Specialist Support and Placement Services	367.0	390.9	23.9	6.5	The higher 2012-13 actual reflects additional demand in placement and support services for children and young people in care.
DEECD	Strategy, review and regulation	116.5	95.9	-20.6	-17.7	The 2012-13 Actual is lower than the 2012-13 Target primarily due to Commonwealth National Partnership funding received late in the financial year as well as the delay of various review projects
DOH	Health Advancement	105.5	81.7	-23.8	-22.6	Actual outcome primarily reflects (i) a revised cash flow for the National Partnership on Prevention in line with deliverables to be achieved in the out years, and (ii) movement to Public Health Development, Research and Support for the Enabling Infrastructure partnership project.
DSDBI	Investment Attraction and Facilitation	263.5	237.6	-25.9	-9.8	The underspend in the Investment Attraction, Facilitation and Major Projects Output is primarily due to underspends in the Industry Transition Fund and the Investment Support Program. A request has been made to carryover the underspends into 2013-14.

Department	Output	2012-13 Budget (\$ million)	2012-13 Actual (\$ million)	Variance (\$ million)	Variance (per cent)	Explanations provided by departments in their annual reports, generally where variance exceeds +/- 10 per cent
DOJ	Infringement and orders management	222.1	187.73	-34.37	-15.5	The actual expenditure is below target due to lower than budgeted carryover from 2011-12, once-off transfers to other outputs including Community Safety and Crime Prevention.
DOJ	Gambling and liquor regulation and racing industry development	140.8	105.0	-35.8	-25.4	The actual expenditure is below target reflecting an adjustment of timing of anticipated grant payments and the transfer of the financial counselling function to the Promoting and protecting consumer interests output.
DOH	Non-Admitted Services	1,336.4	1,300.3	-36.1	-2.7	Actual outcome primarily reflects (i) decreased depreciation resulting from the revaluation of health services' assets, and (ii) increased third-party funding.
DOJ	Emergency management capability	296.8	259.7	-37.1	-12.5	The actual expenditure is below target mostly due to section 30 of the <i>Financial Management Act 1994</i> transfer of funds from output to capital for the Location Based Telephone System.
DPI	Strategic and applied scientific research	296.8	251.6	-45.2	-15.2	Actual expenditure is lower than published budget due to cash-flow repurchases into future years for Energy projects including CarbonNet Carbon Capture and Storage Large Scale Demonstrations, Energy Technology Innovation Strategy HRL Large Scale Demonstrations, Advance Lignite Demonstrations and Sustainable Energy.
DOH	Acute Training and Development	313.0	266.3	-46.7	-14.9	Actual outcome primarily reflects (i) unspent funding carried forward to 2013-14 to deliver services and projects, and (ii) changes to classification of specified teacher/training payments, from Acute Training and Development to Admitted.
DOH	Clinical Care	1,039.9	992.2	-47.7	-4.6	No explanation provided by the Department.
DOJ	Prisoner supervision and support	691.1	642.3	-48.8	-7.1	No explanation provided by the Department.
DSDBI	Innovation And Technology	193.7	144.1	-49.6	-25.6	The underspend in the Innovation Output primarily relates to the Victorian Innovation Statement and World Class research and development programs. A request has been made to carryover the underspend into 2013-14.
DOH	Admitted Services	7,257.5	7,107.9	-149.6	-2.1	Actual outcome primarily reflects (i) a shift in classification from Admitted to Emergency output resulting from change in policy for the National Activity Funding Model, (ii) decreased depreciation resulting from the revaluation of health services' assets and (iii) increase in third-party funding.

Sources: 2012-13 annual reports

APPENDICES TO CHAPTER 6

ASSET INVESTMENT

Appendix A6.1 Reallocation adjustment to 'purchases of non-financial assets' and 'net cash flows from investments in financial assets for policy purposes', 2012-13

	2012-13 Budget	Adjustment from the reallocation provided by DTF ^(a)	Reallocated 2012-13 budget, aligned for the presentation of the 2012-13 actual	2012-13 Actual	Comparable budget to actual variance after reallocation
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Purchase of non-financial assets	3,529.6	936.8	4,466.4	4,133.2	-333.2
Net cash flows from investments in financial assets for policy purposes	2,817.2	-936.8	1,880.4	1,316.8	-563.6

(a) 'Adjustment' refers to changes in the presentation to allow the budget and actual to be comparable (it is not a revised budget).

Sources: Committee calculations based on: Department of Treasury and Finance, *2012-13 Financial Report*, October 2013, p.120; Department of Treasury and Finance, response to the Committee's 2012-13 Financial and Performance Outcomes – Entity-Specific Questionnaire, received 4 February 2014, p.24

Appendix A6.2 Expenditure on commissioned public private partnership projects, 2012-13

Department ^(a)	Project ^(b)	Finance charges on finance leases		Principal payments		Other expenses	
		(\$ million)	What that money covered	(\$ million)	What that money covered	(\$ million)	What that money covered
Department of Education and Early Childhood Development	Partnerships Victoria in Schools	17.4	Principal, interest, contingent rental	3.6	Principal Payment	6.4	Service Payments
						0.6	Modification costs including Relocatable Buildings.
Department of Environment and Primary Industries	Victorian Desalination Plant	303.0	Finance charges on the finance lease for the desalination plant and high voltage alternating current assets.	28.0	Principal payments for the finance lease for the desalination plant and high voltage alternating current assets.	81.0	Water service payments during the commissioning phase.
Department of Health	Royal Women's Hospital Project	17.9	Cost of Borrowing (Excludes GST)	5.9	Includes equity payments of \$2.157m. (Excludes GST)	13.2	Operating Costs + Other QSP [quarterly service payment] Costs, income tax paid, other financial costs etc. (Excludes GST)
	Casey Hospital	8.1	Cost of Borrowing and Principal (Excludes GST)			3.9	Operating Costs (Including Refurbishment) (Excludes GST)
	The New Royal Children's Hospital	45.0	Cost of Borrowing (Excludes GST)	-33.2	(Excludes GST)	15.3	Operating Costs + Contingent Costs (Excludes GST)
Department of Justice	Public private partnerships are commercial in confidence and therefore not disclosed. ^(c)						
Department of Primary Industries	Royal Melbourne Showgrounds Redevelopment	5.1	Service payments by the department - Interest expense	6.5	Service payments made by the department	-	Service payments to the concessionaire
	Biosciences Research Centre Project (AgriBio)	16.9	Service payments by the department - Interest expense	-		11.1	Service payments by the department - Operating costs
Department of State Development, Business and Innovation	Melbourne Convention Centre Development	40.6	Capital and interest cost of debt raised by Plenary Conventions Pty Ltd to finance the project.	-	Not applicable	18.4	Lifecycle replacement and maintenance of the asset as well as the delivery of all contracted services.

Department ^(a)	Project ^(b)	Finance charges on finance leases		Principal payments		Other expenses	
		(\$ million)	What that money covered	(\$ million)	What that money covered	(\$ million)	What that money covered
Department of Transport, Planning and Local Infrastructure	<i>Peninsula Link</i> (Under Linking Melbourne Authority)	44.1	Finance charges on the finance lease from the time the road was completed (January 2013) until 30 June 2013.	10.6	Principal payments on the finance lease from the time the road was completed (January 2013) until 30 June 2013	30.6	Operational and environmental expenditure related to the <i>Peninsula Link</i> project.
		31.0	Interest – Capital Cost Component	-1.5	Principal increase – Capital Cost Component	11.3	Operating Costs
	<i>Southern Cross Station</i> (Under Public Transport Victoria)				(Note: Lease phasing results in the principal amounts increasing during the first few years of the lease).	3.3	Operating Costs – Escrow
						1.6	Insurance Costs
						1.9	Contingent Rent
(a) Departments with no public private partnerships include: Department of Human Services, Department of Parliamentary Services, Department of Planning and Community Development, Department of Premier and Cabinet, Department of Treasury and Finance.							
(b) The responses from departments do not represent a complete list of all commissioned public private partnerships, with details provided for only 10 out of 19 partnerships. No details were provided for the prisons (Port Phillip Prison, Fulham Correctional Centre, Murrumbidgee Correctional Centre and Metropolitan Remand Centre), County Court, and Emergency Service Telecommunications (Department of Justice), or the Mildura Base Hospital – expected to be handed back to the State in 2013 (Department of Health). The remaining three partnerships are under water sector public non-financial corporations and were not requested to provide information.							
(c) Department of Justice, response to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire, received 8 November 2013, p.16							
Sources: Departmental responses to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire							

Appendix A6.3 General government asset investment by significant government purpose classification, 2011-12 to 2012-13

	2011-12 (\$ million)	2011-1 (per cent)	2012-13 (\$ million)	2012-13 (per cent)
Education	1,312.0	36.8	676.9	16.4
Health	632.1	17.7	794.6	19.2
Housing and community amenities	160.4	4.5	122.7	3.0
Public order and safety	348.6	9.8	526.7	12.7
Recreation and culture	70.4	2.0	30.2	0.7
Social security and welfare	41.3	1.2	31.9	0.8
Transport and communications	924.9	25.9	1,748.7	42.3
Other ^(a)	75.3	2.1	201.4	4.9
TOTAL	3,564.9	100.0	4,133.2	100.0

(a) The 'Other' category is made up of: 'general public services'; 'fuel and energy'; 'agriculture, forestry, fishing and hunting'; 'mining, manufacturing and construction'; 'other economic affairs'; and 'other purposes'.

Sources: Department of Treasury and Finance, 2011-12 Financial Report, October 2012, p.103; Department of Treasury and Finance, 2012-13 Financial Report, October 2013, p.101

Appendix A6.4 General government sector projects with significant (greater than positive or negative 10 per cent) variances between budget and actual expenditure, 2009-10 to 2012-13^(a)

	Projects that fell significantly short of budgeted expenditure ^{(b)(c)}		Projects that significantly exceeded budgeted expenditure ^{(b)(c)}		Within ±10 per cent of budget estimate ^(b)
	More than 10 per cent below the estimate	Impact of under-expenditure	More than 10 per cent above the estimate	Impact of over-expenditure	
	(per cent)	(\$ million)	(per cent)	(\$ million)	
ALL PROJECTS ^(d)					
2009-10	50.3	- 867.1	25.8	182.1	23.9
2010-11	60.1	- 919.2	24.4	250.1	15.5
2011-12	66.8	- 1,210.9	19.6	298.9	13.6
2012-13	62.3	- 840.0	25.7	255.0	12.0
HVHR PROJECTS ^(e)					
2011-12	57.1	-53.6	28.6	35.8	14.3
2012-13	81.8	-283.7	0.0	0.0	18.2
MPV PROJECTS					
2009-10	100.0	- 134.6	0.0	0.0	0.0
2010-11	66.7	- 78.2	33.3	7.4	0.0
2011-12	60.0	- 9.3	20.0	2.3	20.0
2012-13	22.2	- 1.9	33.3	14.5	44.5

(a) Changes to methodology mean that figures are not comparable with figures published by the Committee in previous years. This is due to figures in previous years including projects with TEIs lower than \$10.0 million.

(b) Where a budget was not disclosed or expenditure data was not provided by departments, the project has not been included.

(c) Significant under-spends and over-spends have been defined as varying from the budget estimates by more than 10 per cent.

- (d) For the All Projects category, only projects with TEIs \$10.0 million and above have been included.
- (e) HVHR projects reviewed are those disclosed in budget papers as 'underway and approved'. Where a project changed HVHR status between years, it is only included when it was designated HVHR.
- Sources: Departmental responses to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire – Part One; departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire; departmental responses to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire.

Appendix A6.5 Changes to expected completion dates of departmental projects, 2011-12 to 2012-13^{(a)(b)(c)}

	2011-12 (number of projects)	2012-13 (number of projects)
The change to the expected completion date was not significant	14	23
Significant increase to the expected completion date ^(d)	42	90
Significant decrease to the expected completion date ^(d)	12	11
No change to expected completion date	109	72

- (a) Only projects with TEIs greater than \$10.0 million have been included.
- (b) Due to a change in the methodology for collecting data, projects prior to 2011-12 could not be included.
- (c) Where department responded with expected completion dates early/mid/late in the year, this has been interpreted using the 2013-14 definitions with changes calculated from the last day of the period quoted. (For example, the Department of Justice revised the expected completion date for the *New Children's Court at Broadmeadows* project with 'Mid 2016'. The date for calculating the change is 31 August 2016, the last day of the period in the budget paper definition.)
- (d) Significant changes are defined as three months or more.
- Sources: Committee calculations based on departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire; departmental responses to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire.

Appendix A6.6 Average impact of significant changes to estimated completion dates, 2009-10 to 2012-13^(a)

	2009-10 (months)	2010-11 (months)	2011-12 (months)	2012-13 ^(b) (months)
Average significant increase to expected completion date ^(c)	12.5	17.1	11.8	15.6
Average significant decrease to expected completion date ^(c)	7.8	7.0	7.6	15.2

- (a) Only projects with TEIs greater than \$10.0 million have been included.
- (b) In 2012-13, the expected completion date for the Melbourne Strategic Assessment program changed from 2020 to 2053. This large change has been excluded as it would misrepresent the 2012-13 results.
- (c) Significant changes are defined as three months or more.
- Sources: Committee calculations based on: departmental responses to Committee's 2009-10 and 2010-11 Financial and Performance Outcomes Questionnaire – Part One; departmental responses to the Committee's 2011-12 Financial and Performance Outcomes General Questionnaire; departmental responses to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire.

Appendix A6.7 Projects designated High-Value, High-Risk, 2011-12 to 2013-14

	Total HVHR projects underway and approved (number)	Total HVHR projects in planning/development (number)
2011-12	10	8
2012-13	16	10
2013-14	23	11

Sources: Budget Paper No.4, *State Capital Program*, 2011-12 to 2013-14

Appendix A6.8 HVHR projects, expenditure and timeliness, 2012–13^(a)

Department/agency	Project ^(b)	Estimated expenditure 2012-13 (\$ million)	Actual expenditure 2012-13 (\$ million)	Variance (per cent)	Completion date at start of year ^(c)	Completion date at end of year ^(c)	Delay (months)
Department of Environment and Primary Industries	Northern Victoria Irrigation Renewal Project	50.2	50.4	0.4	30/06/2018	30/06/2018	0
	Northern Victoria Irrigation Renewal Project – Stage 2	7.2	7.2	0	30/06/2018	30/06/2018	0
Department of Health	Box Hill Hospital redevelopment	137.6	110.6	-19.6	31/12/2015	31/12/2015	0
Department of Human Services	Youth Foyers	4.2	2	-51.7	28/02/2014	31/05/2014	3
Department of Justice	New male prison	60.8	N/A	N/A	30/06/2018	31/12/2017	-6
Department of State Development, Business and Innovation	Melbourne Wholesale Market redevelopment	N/A	108.7	N/A	30/06/2015	30/06/2015	0
	Dingley bypass	41	16.8	-59.1	30/06/2016	30/06/2018	24
Department of Transport, Planning and Local Infrastructure	Grade separations	53.3	34.2	-35.8	30/06/2015	30/06/2017	24
	Registration and licensing system – replacement	55.7	16.9	-69.6	30/06/2014	30/06/2015	12
Other public non-financial corporations	State sports facilities project	2	1.8	-12.1	30/06/2013	30/06/2013	0
Transport Ticketing Authority	Myki	182.2	73.4	-59.7	30/06/2017	30/06/2017	0
Victorian Rail Track	Digital train radio system	38.3	1	-97.5	30/06/2013	30/06/2015	24
	Regional Rail Link	N/A	1,105.70	N/A	30/06/2017	30/06/2017	0
	Regional rolling stock (existing project in 2012-13)	30	4	-86.8	30/06/2014	30/06/2014	0
	Regional rolling stock (new project in 2012-13)	N/A	105.3	N/A	30/06/2018	30/06/2018	0

(a) HVHR projects reviewed are those disclosed in budget papers as 'underway and approved'.

(b) Where a project changed HVHR status between years, it is only included when it was designated HVHR.

(c) Where a department responded with expected completion dates early/mid/late in the year, this has been interpreted using the 2013-14 definitions with changes calculated from the last day of the period quoted. For example, the Department of Justice revised the expected completion date for the *New Children's Court at Broadmeadows* project with 'Mid 2016'. The date for calculating the change is 31 August 2016, the last day of the period in the budget paper definition.

Sources: Departmental responses to Committee's 2012–13 Financial and Performance Outcomes General Questionnaire

Appendix A6.9 Asset investment projects managed by Major Projects Victoria, expenditure and timeliness, 2012–13

Project	Department/agency	Estimated expenditure 2012-13 (\$ million)	Actual expenditure 2012-13 (\$ million)	Variance (per cent)	Completion date at start of year	Completion date at end of year	Delay (months)
Australian Synchrotron – Commonwealth supported project – National Centre for Synchrotron Science: Outreach and research support facilities (Clayton)	Department of State Development, Business and Innovation	0.5	1.3	182.0	31/12/2012	31/12/2012	0
E-Gate – project development (West Melbourne)	Department of State Development, Business and Innovation	2.0	0.3	-85.2	30/06/2013	30/06/2014	12
Federation Square East – Feasibility and investigations (Melbourne)	Department of State Development, Business and Innovation	N/A	0.2	N/A	30/06/2012	30/06/2013	12
Future of operational learning and development training facility – Construction (Craigieburn)	Metropolitan Fire Brigade	24.4	36.0	47.4	30/06/2013	31/12/2013	6
Melbourne and Olympic Park redevelopment – stage 1 (Melbourne)	Other public non-financial corporations	110.4	111.7	1.2	30/06/2015	30/06/2015	0
Melbourne and Olympic Park redevelopment – stage 2 scoping and initial design work (Melbourne)	Other public non-financial corporations	2.7	2.7	0.0	30/06/2014	30/06/2014	0
Melbourne Wholesale Markets – Redevelopment (Epping)	Department of State Development, Business and Innovation	N/A	108.7	N/A	30/06/2015	30/06/2015	0
Parkville Gardens (Melbourne)	Department of State Development, Business and Innovation	1.2	1.1	-8.2	30/06/2015	30/06/2015	0
Shrine of Remembrance (Melbourne)	Department of Planning and Community Development	6.3	6.3	0.0	31/12/2014	31/12/2014	0
Southbank Cultural Precinct – Redevelopment (Southbank)	Department of Premier and Cabinet	4.9	6.9	42.2	30/06/2012	31/07/2012	1
State Sports Facility project – Upgrade (various)	Other public non-financial corporations	2.0	1.8	-12.1	30/06/2013	30/06/2013	0

Sources: Department of State Development, Business and Innovation, response to the Committee's 2012–13 Financial and Performance Outcomes General Questionnaire, received 8 November 2013, pp.5-7

APPENDICES TO CHAPTER 7

REPORTING PRACTICES FOR KEY ASSET PROJECTS

Appendix A7.1 External reporting of selected current projects, 2012-13

Entity	Project	Reporting in annual reports	Other external reporting
Department of Environment and Primary Industries / Goulburn-Murray Rural Water Corporation	<i>Connections Project</i> (previously named <i>Northern Victoria Irrigation Renewal Project</i>) (HVHR)	<ul style="list-style-type: none"> Brief project description in the Department's <i>Annual Report 2013</i>.^(a) Detailed project description in the Corporation's <i>2012/13 Annual Report</i>, including budget to actual expenditure for the year and explanation for variances.^(b) 	<ul style="list-style-type: none"> Dedicated website with a detailed project description and progress on an individual water meter basis. No update for the overall project.^(c) Dedicated webpage under the Corporation with a detailed project description and overall progress as at July 2012.^(d)
Department of Environment and Primary Industries	<i>Melbourne Strategic Assessment</i> program (previously named <i>Grasslands</i> project)	<ul style="list-style-type: none"> No reporting in 2012-13. 	<ul style="list-style-type: none"> Dedicated webpage with a detailed project description. No update for the overall project.^(e)
Department of Health	<i>Box Hill Hospital Redevelopment</i> (HVHR)	<ul style="list-style-type: none"> Brief description in the Department's <i>Annual Report 2012-13</i>.^(f) Brief description, update and achievements-to-date in Eastern Health's <i>Annual Report 2012-13</i>.^(g) 	<ul style="list-style-type: none"> Dedicated webpage with a detailed project description. Limited overall project updates.^(h)
Department of Justice	<i>Ararat Prison Project</i> (now named <i>Hopkins Correctional Centre</i>) (No longer a PPP)	<ul style="list-style-type: none"> Brief update on the expected completion date in the Department's <i>Annual Report 2012-13</i>.⁽ⁱ⁾ No information on revised financial arrangements for the project. 	<ul style="list-style-type: none"> Dedicated webpage with a brief project description. No update for the overall project.^(j)
Department of State Development, Business and Innovation / Major Projects Victoria (MPV)	<i>Melbourne Wholesale Markets Redevelopment</i> (HVHR)	<ul style="list-style-type: none"> The project is briefly noted in the Department's <i>Annual Report 2012-13</i>.^(k) 	<ul style="list-style-type: none"> Dedicated webpage under MPV with a brief project description. No update for the overall project.^(l) Dedicated webpage under the Melbourne Markets Authority with a detailed description of the project and some project updates.^(m)
Department of Transport, Planning and Local Infrastructure / VicTrack	<i>Melbourne Metro – Planning and Development</i> project	<ul style="list-style-type: none"> The project is briefly noted in the Department's <i>Annual Report 12-13</i>.⁽ⁿ⁾ No reporting in VicTrack's <i>Annual Report 2012-13</i>. Brief description in Public Transport Victoria's <i>Annual Report 2012-13</i>.^(o) 	<ul style="list-style-type: none"> Dedicated webpage under Public Transport Victoria with a project description.^(p)

Entity	Project	Reporting in annual reports	Other external reporting
Department of Transport, Planning and Local Infrastructure / VicRoads	M80 upgrade road projects (multiple)	<ul style="list-style-type: none"> No reporting in the Department's <i>Annual Report 2012-13</i>. Brief update on major milestones in the <i>VicRoads Annual Report 2012-13</i>.^(q) 	<ul style="list-style-type: none"> Dedicated webpage under VicRoads with a detailed project description and progress on individual road segments.^(r) Dedicated webpage under the private construction contractors with a detailed project description, time and cost.^(s)
Department of Transport, Planning and Local Infrastructure / VicTrack	Protective Services Officers – Railway Station Infrastructure	<ul style="list-style-type: none"> No reporting in the Department's <i>Annual Report 2012-13</i>. No reporting in VicTrack's <i>2012-13 Annual Report</i>. 	<ul style="list-style-type: none"> No further reporting identified.
Department of Justice / Victoria Police	Police Station Infrastructure to Accommodate 1,700 Frontline Police and 940 Protective Services Officers – Asset Enhancement	<ul style="list-style-type: none"> Brief description on the outcomes in the Department's <i>Annual Report 2012-13</i>.^(t) Description of current deployment of PSOs, status of police station upgrades and the full time equivalent in the Victoria Police <i>Annual Report 2012-2013</i>.^(u) 	<ul style="list-style-type: none"> News articles on the Department's website regarding the effectiveness of the program.^(v) Dedicated recruitment webpage under Victoria Police detailing the PSOs operational role.^(w)
VicTrack	Metropolitan Train Control Reliability project	<ul style="list-style-type: none"> No disclosures identified. 	<ul style="list-style-type: none"> No further reporting identified.
Department of Transport, Planning and Local Infrastructure / VicTrack	Regional Rail Link (HVHR)	<ul style="list-style-type: none"> The project is briefly noted in the Department's <i>Annual Report 2012-13</i>. One performance measure indicates overall progress by expenditure.^(x) The project is briefly noted in VicTrack's <i>2012-13 Annual Report</i>.^(y) 	<ul style="list-style-type: none"> Dedicated Regional Rail Link website with a detailed project description and progress on individual components.^(z) News articles on the Department's website regarding significant milestones reached.^(aa)

(a) Department of Environment and Primary Industries, *Annual Report 2013*, p.51(b) Goulburn-Murray Rural Water Corporation, *2012/13 Annual Report*, pp.5, 11, 22

(c) Goulburn-Murray Rural Water Corporation, 'Goulburn-Murray Water', <www.g-mwater.com.au/connections>, accessed 13 March 2014

(d) Goulburn-Murray Rural Water Corporation, 'Goulburn-Murray Water: Strategic Connections Project', <www.gmwconnectionsproject.com.au>, accessed 13 March 2014

(e) Department of Environment and Primary Industries, 'DEPI - Melbourne Strategic Assessment', <www.depi.vic.gov.au/environment-and-wildlife/biodiversity/melbourne-strategic-assessment>, accessed 13 March 2014

(f) Department of Health, *Annual Report 2012-13*, p.24(g) Eastern Health, *Annual Report 2012-13*, pp.12, 22, 26

(h) Department of Health, 'Box Hill Hospital Redevelopment Project', <www.health.vic.gov.au/boxhill/index.htm>, accessed 13 March 2014

(i) Department of Justice, *Annual Report 2012-13*, pp.15, 112

(j) Department of Justice, 'Hopkins Correctional Centre (Ararat) Precinct Development Plan', <www.corrections.vic.gov.au/utility/publications+manuals+and+statistics/hopkins+correctional+centre+(ararat)+precinct+development+plan>, accessed 13 March 2014

(k) Department of State Development, Business and Innovation, *Annual Report 2012-13*, p.137

(l) Department of State Development, Business and Innovation, 'Melbourne Market Relocation', <www.majorprojects.vic.gov.au/our-projects/our-current-projects/melbourne-market-relocation>, accessed 13 March 2014

(m) Melbourne Markets Authority, 'Market Relocation', <www.melbournemarkets.com.au/market-relocation/>, accessed 13 March 2014. The extent of the Authority's direct responsibility for managing the project is not clear to the Committee.

(n) Department of Transport, Planning and Local Infrastructure, *Annual Report 2012-13*, p.10(o) Public Transport Victoria, *Annual Report 2012-13*, p.13

(p) Public Transport Victoria, 'Metro Rail Capacity Project', <ptv.vic.gov.au/metro-rail-capacity-project/>, accessed 13 March 2014

(q) VicRoads, *Annual Report 2012-13*, pp.13, 20

(r) VicRoads, 'M80 Upgrade', <www.vicroads.vic.gov.au/Home/M80Upgrade/>, accessed 13 March 2014

(s) Leighton Holdings Limited, 'M80 Ring Road Upgrade', <www.leighton.com.au/our-business/projects/completed-projects/m80-ring-road-upgrade>, accessed 13 March 2014; Thiess, 'Thiess Australia, M80 Ring Road Upgrade - Tulla Sydney Alliance', <www.thiess.com.au/projects/m80-ring-road-tulla-to-sydney>, accessed 13 March 2014

(t) Department of Justice, *Annual Report 2012-13*, p.10(u) Victoria Police, *Annual Report 2012-2013*, pp.41-43, 53, 67

(v) Department of Justice, 'People feel safer with protective services officers at train stations', <www.justice.vic.gov.au/utility/news+archive/people+feel+safer+with+protective+services+officers+at+train+stations>, accessed 13 March 2014

- (w) Victoria Police, 'About the Role', <www.policecareer.vic.gov.au/psa/about-the-role>, accessed 13 March 2014
- (x) Department of Transport, Planning and Local Infrastructure, *Annual Report 12-13*, p.10
- (y) VicTrack, *2012-13 Annual Report*, pp.7-8
- (z) Regional Rail Link, 'Regional Rail Link', <www.regionalraillink.vic.gov.au/>, accessed 13 March 2014
- (aa) Department of Transport, Planning and Local Infrastructure, 'News', <www.transport.vic.gov.au/about-us/news?result_45506_result_page=3>, accessed 13 March 2014

Source: Compiled by the Public Accounts and Estimates Committee

Appendix A7.2 External reporting of selected completed projects, 2012-13

Entity	Project	Reporting in annual reports	Other external reporting
Barwon Region Water Corporation	<i>Barwon Water Biosolids Management project</i> (PPP)	<ul style="list-style-type: none"> Brief description of the completed project and expected benefits in the Corporation's <i>Annual Report 2012-2013</i>.^(a) 	<ul style="list-style-type: none"> Dedicated webpage under the Corporation with detailed project information.^(b) Dedicated webpage under the private construction contractors with a detailed project description, time and cost.^(c)
Department of Environment and Primary Industries	<i>Fire Protection Access – Bridge Replacement</i>	<ul style="list-style-type: none"> Detailed examination of budget to actual outcomes for total estimated expenditure and completion dates in the Department's <i>Annual Report 2013</i>, including reasons for variance.^(d) 	<ul style="list-style-type: none"> No further reporting identified.
Department of Environment and Primary Industries	<i>Victorian Water Trust Assets – Upgrades</i>	<ul style="list-style-type: none"> Detailed examination of budget to actual outcomes for total estimated expenditure and completion dates in the Department's <i>Annual Report 2013</i>, including reasons for variance.^(e) 	<ul style="list-style-type: none"> No further reporting identified.
Department of Health	<i>Ballarat Base Hospital – Redevelopment project</i>	<ul style="list-style-type: none"> No reporting in the Department's <i>Annual Report 2012-13</i>. Brief update on additional works in the Ballarat Health Services <i>Annual Report 2012-2013</i>. Brief update on post-completion outcomes in the <i>Annual Report 2011-2012</i>.^(f) 	<ul style="list-style-type: none"> Historical news articles on the Ballarat Health Services' website regarding significant milestones reached.^(g)
Department of Premier and Cabinet / Major Projects Victoria	<i>Southbank Cultural Precinct – Redevelopment</i>	<ul style="list-style-type: none"> Brief disclosure of the expenditure on the project during the year and a description of the completed project and benefits in the Department's 2012-13 and 2011-12 annual reports.^(h) Numerous and detailed descriptions of the completed project in the Victorian Arts Centre Trust's <i>2012-13 Annual Report</i>.⁽ⁱ⁾ 	<ul style="list-style-type: none"> Dedicated webpage under Arts Victoria of the realised benefits of the project.^(j) Dedicated webpage under MPV with a brief project description. No update for the overall project.^(k) Dedicated webpage under the private construction contractors with a detailed project description, time and cost.^(l)
Department of Premier and Cabinet	<i>Arts Centre Melbourne – Supporting the Reopening of Hamer Hall</i>	<ul style="list-style-type: none"> Brief disclosure of the expenditure on the project during the year in the Department's <i>2012-2013 Annual Report</i>.^(m) Detailed description of the completed project in Victorian Arts Centre Trust's <i>2012-2013 Annual Report</i>.⁽ⁿ⁾ 	<ul style="list-style-type: none"> Historical news articles on Arts Victoria's website regarding funding.^(o)

(a) Barwon Water, *Annual Report 2012-2013*, pp.4, 7, 16, 18

(b) Department of Treasury and Finance, 'Barwon Water Biosolids Management Project', <www.dtf.vic.gov.au/Infrastructure-Delivery/Public-private-partnerships/Projects/Barwon-Water-Biosolids-Management-Project>, accessed 13 March 2014

(c) Plenary Group, 'Barwon Water Biosolids Management, Geelong, Victoria, Australia', <plenarygroup.com/asia-pacific/projects/barwon-water-biosolids-management.html>, accessed 13 March 2014

(d) Department of Environment and Primary Industries, *Annual Report 2013*, p.190

- (e) *ibid.*
- (f) Ballarat Health Services, *Annual Report 2012-2013*, pp.7, 21; Ballarat Health Services, *Annual Report 2011-2012*, pp.5, 8
- (g) Ballarat Health Services, 'Home', <www.bhs.org.au>, accessed 13 March 2014
- (h) Department of Premier and Cabinet, *2012-2013 Annual Report*, pp.37, 123; Department of Premier and Cabinet, *2011-2012 Annual Report*, pp.38, 124
- (i) Victorian Arts Centre Trust, *2012-2013 Annual Report*, pp.5-6, 12, 20-21
- (j) Arts Victoria, 'Hamer Hall Redevelopment - Project Overview', <www.arts.vic.gov.au/Projects_Initiatives/Cultural_Infrastructure_projects/Southbank_Arts_Precinct/Hamer_Hall_Redevelopment_-_Project_Overview>, accessed 13 March 2014
- (k) Department of State Development, Business and Innovation, 'Southbank Cultural Precinct Redevelopment', <www.majorprojects.vic.gov.au/our-projects/our-past-projects/hamer-hall>, accessed 13 March 2014
- (l) Baulderstone, 'Southbank Cultural Precinct Redevelopment – Stage One, Hamer Hall', <www.baulderstone.com.au/project-portfolio/project-details/southbank-cultural-precinct-redevelopment-scpr-stage-one-hamer-hall-and-its-environs?fp=,795,37,770,793,794,>>, accessed 13 March 2014
- (m) Department of Premier and Cabinet, *2012-2013 Annual Report*, p.123
- (n) Victorian Arts Centre Trust, *2012-2013 Annual Report*, pp.17, 29
- (o) Arts Victoria, '2012-13 Victorian State Budget', <www.arts.vic.gov.au/About_Us/News/2012/2012-13_Victorian_State_Budget#UOTROKLdcOM>, accessed 13 March 2014

Source: Compiled by the Public Accounts and Estimates Committee

APPENDIX TO CHAPTER 8

THE GOVERNMENT'S RESPONSES TO PREVIOUS RECOMMENDATIONS OF THE COMMITTEE

Appendix A8.1 Recommendations from the *Report on the 2009-10 and 2010-11 Financial and Performance Outcomes* which have not been implemented to date, April 2014

Recommendation	Government response	
6. The Department of Treasury and Finance compare the actual figures for non-financial public sector debt to targets established in the debt management strategy, explaining any significant variations.	Support	As set out in the 2012-13 Budget, the Department of Treasury and Finance (DTF) confirms that the Government is adopting new fiscal parameters against which progress will be measured. The Government's medium-term fiscal strategy is that 'general government net debt is reduced as a percentage of GSP over the decade to 2022.' DTF will measure and report the State's performance in meeting this strategy in all major financial reporting publications.
11. The Environment Protection Authority monitor and report on job creation as a result of the Landfill Levy.	Support	The Department of Sustainability and Environment supports this recommendation and, with support from its portfolio agencies, will develop a model to monitor and report on employment creation associated with the Landfill Levy.
22. The Department of Treasury and Finance indicate in budget papers whether exceeding, coming under or precisely achieving the target is preferable for each performance measure.	Support in principle	Budget Paper No.3 Service Delivery, currently indicates whether exceeding or coming under performance measures is preferable in some instances. The Department of Treasury and Finance will seek opportunities to broaden this practice.
62. The Victorian Auditor-General's Office disclose in its annual report key areas of organisational alignment identified through staff surveys as requiring improvement, together with strategies to address these areas of concern.	Support	The VAGO strategic plan identifies improved organisational performance as a key objective, to be achieved through aligning systems and processes. It is acknowledged that the annual report only highlighted the areas where the Office was performing in relation to the organisational alignment. Considerable work has been undertaken to implement activities in response to staff surveys and 360° feedback. These are part of VAGO's learning and development programs which include activities such as the strengthening of leadership capabilities through coaching, improving communication and providing a closer link between development activities and performance. In future years annual reports VAGO will amplify its reporting in these areas.

Sources: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 115th Report on the 2011-12 Financial and Performance Outcomes, received 30 October 2013, pp.4-5; and departmental responses to the Committee's 2012-13 Financial and Performance Outcomes General Questionnaire.

