

CHAPTER 4: REVIEW OF THE BUDGET PAPERS

Key Findings of the Committee:

- 4.1 The 2004-05 Budget Papers were restructured so each volume contains related information.
- 4.2 The focus of the Budget Papers is to provide enhanced information at the whole of government level. However, this has resulted in a reduced emphasis on details at the departmental level. More information needs to be provided at a departmental level on the budget initiatives and strategies adopted to meet the Government's desired outcomes.
- 4.3 The departmental output statements in Budget Paper No. 3 *2004-05 Service Delivery* do not distinguish the ministerial portfolio responsibilities nor the respective Minister's responsibility for outputs within their departments.
- 4.4 The extent of information provided by departments in Budget Paper No. 3 *2004-05 Service Delivery* as an explanation of discontinued outputs and performance measures, and changes to performance targets (including cost targets) varies.

4.1 Amendments to information in the 2004-05 Budget Papers

The Committee noted that some information contained in the printed versions of the 2004-05 Victorian Budget Overview, Budget Paper No. 2 *2004-05 Strategy and Outlook* and Budget Paper No. 4 *2004-05 Statement of Finances* was different to the electronic versions of these Budget Papers. A list of the amendments can be found at the Victorian State Budget website, www.budget.vic.gov.au, and is reproduced in exhibit 4.1.

Exhibit 4.1: Amendments to the 2004-05 Budget Papers

Amendments			
<i>Please note that some information contained in the Budget Overview, Budget Paper No. 2 and Budget Paper No. 4 found on this site differs from that in the printed versions. Please refer to the table below for specific details:</i>			
Budget Paper	Chapter	Page	Reason for amendment
Budget Overview	N/A	11	Investment figures for 2003-04 in original chart were based on 2003-04 Budget Update estimate. Amended chart based on revised 2003-04 estimate as published in 2004-05 Budget.
BP2	1	9	Investment figures for 2003-04 in original Chart 1.2 were based on 2003-04 Budget Update estimate. Amendments to Chart 1.2 are based on revised 2003-04 estimate as published in 2004-05 Budget.
BP2	3	44	Table 3.7 updated to correctly allocate changes in revenue between Economic/Demographic Effects, taxation revenue and Administrative Variations, and other miscellaneous variations.
BP2	3	45	Updated text to reflect revised Table 3.7.
BP2	5	77	Table 5.2 corrected to eliminate misalignment of some state and territory information across columns.
BP4	6	183	Table 6.6 corrected to eliminate the transactions between sectors in recognition of the Smelter Reduction Amount (SRA). Original table did not correctly eliminate the SRA.

Notes: BP2 – refers to Budget Paper No. 2 2004-05 Strategy and Outlook

BP4 – refers to Budget Paper No. 4 2004-05 Statement of Finances

Source: Amendments, www.budget.vic.gov.au, accessed 24 August 2004

The reason for the amendments implies that a number of errors were subsequently found in the printed Budget Papers that were tabled in Parliament. The Committee acknowledges that the Department of Treasury and Finance has a strict timeframe to adhere to during the process of formulating the budget and the budget documentation. Where errors are identified the changes should be emailed to Members of Parliament.

The Committee understands that the Parliament was not advised of these amendments to the tabled Budget Papers.

The Committee recommends that:

Recommendation 13: **The Treasurer table in the Parliament an erratum slip notifying any changes to the information contained in the Budget Papers and provide a copy to the Public Accounts and Estimates Committee.**

4.2 Presentation of the 2004-05 Budget Papers

The Government has made a number of structural changes to the 2004-05 Budget Papers. As indicated in the Budget guide,¹ these changes do not alter the scope of the Budget Papers but rearranges material between the different volumes.² A comparison of the structure of the 2003-04 Budget Papers and the 2004-05 Budget Papers is shown in exhibit 4.2.

¹ *2004-05 Victorian Budget - Your guide to the structure of the State Budget Papers*

² *ibid.*, p.2

Exhibit 4.2: Comparison between the structure of the 2003-04 and 2004-05 Budget Papers

2003-04 BUDGET PAPERS CHAPTER HEADINGS	2004-05 BUDGET PAPERS CHAPTER HEADINGS
Budget Paper No. 2 <i>Budget Statement</i>	Budget Paper No. 2 <i>Strategy and Outlook</i>
Financial policy objectives and strategies	Financial policy objectives and strategy
Budget position and outlook	Economic conditions and outlook
Economic conditions and outlook	Budget position and outlook
Budget initiatives(a)	Balance sheet management and outlook
Commonwealth-State financial relations	Commonwealth-State financial relations
Balance sheet management and outlook	Statement of risks
Election commitments: Implementation report card (a)	Style conventions
Statement of risks	
Estimated financial statements and notes (b)	
Output, asset investment and revenue initiatives (a)	
Growing Victoria Infrastructure reserve (a)	
Revised 2002-03 Budget outcome (b)	
Historical and forward estimates tables (b)	
Uniform presentation of Government Finance Statistics (b)	
Tax expenditures (b)	
<i>Growing Victoria Together</i> progress report (a)	
Style conventions	
Budget Paper No. 3 <i>Budget Estimates</i>	Budget Paper No. 3 <i>Service Delivery</i>
Introduction	Introduction
Departmental overview	Service and budget initiatives
Individual departments	Election commitments: Implementation report card
Part 1: Outlook and inputs	Departmental output statements
Individual departments (b)	Output, asset investment and revenue initiatives
Part 2: Financial information (b)	Growing Victoria Infrastructure Reserve
State revenue (b)	<i>Growing Victoria Together</i> progress report
Public account (b)	Discontinued outputs and/or measures (c)
Abbreviations and acronyms	Abbreviations and acronyms
Style conventions	
	Budget Paper No. 4 <i>Statement of Finances</i>
	Introduction
	Estimated financial statements and notes
	Departmental financial statements
	State revenue
	Tax expenditures and concessions
	Public accounts
	Uniform presentation of Government Finance Statistics
	Historical and forward estimates tables
	Revised 2003-04 Budget outcome
	2003-04 Quarterly Financial Report No. 3 for the Victorian General Government Sector (previously reported separately) (c)

Notes: (a) moved to Budget Paper No. 3 2004-05 Service Delivery
 (b) moved to Budget Paper No. 4 2004-05 Statement of Finances
 (c) new for 2004-05

Source: 2004-05 Victorian Budget - Your guide to the structure of the State Budget Papers, p.3

As shown in exhibit 4.2 each volume of the Budget Papers is structured around similar themes, in that:

- Budget Paper No. 2 *2004-05 Strategy and Outlook* provides a high-level perspective on the Budget;
- Budget Paper No. 3 *2004-05 Service Delivery* provides stronger linkages between the Government's outcomes and the outputs to be delivered by departments in the Budget year; and
- Budget Paper No. 4 *2004-05 Statement of Finances* is dedicated specifically to financial information and amalgamates financial information previously contained in the former Budget Paper No. 2 *2003-04 Budget Statement* and Budget Paper No. 3 *2003-04 Budget Estimates*.

The Committee welcomes these changes, the overall effect of which has been to improve the structure of the Budget Papers by consolidating similar information within one volume.

4.2.1 The Budget guide

Included in this year's Budget Papers is a guide which outlines the changes to the structure of the Budget Papers.³ The information in the guide is contained in the table which is reproduced in exhibit 4.2, and in the following exhibit 4.3 which identifies the chapters of the Budget Papers where the statutory requirements for the preparation of the budget are addressed.

³ *2004-05 Victorian Budget - Your guide to the structure of the State Budget Papers*

Exhibit 4.3: Requirements of the Financial Management Act 1994 and the Audit Act 1994 and their location in the 2004-05 Budget Papers

Relevant Section of the Acts	Requirement	Location
Sections 23 E-G of the <i>Financial Management Act 1994</i>	Statement of financial policy objectives and strategies for the year.	Budget Paper No. 2, Chapter 1 <i>Financial Policy Objectives and Strategies</i> Budget Paper No. 4, Chapter 1 <i>Estimated Financial Statements and Notes</i>
Sections 23 H-J of the <i>Financial Management Act 1994</i>	Estimated financial statements for the year, comprising: <ul style="list-style-type: none"> • an estimated statement of financial performance over the year; • an estimated statement of financial position at the end of the year; • an estimated statement of cash flows for the year; and • statement of the accounting policies on which these statements are based and explanatory notes. 	Budget Paper No. 4, Chapter 1 <i>Estimated Financial Statements and Notes</i>
Section 23 K of the <i>Financial Management Act 1994</i>	Statement accompanying the budget which: <ul style="list-style-type: none"> • outlines the material economic assumptions used in preparation of the estimated financial statements; • discusses the sensitivity of the estimated financial statements to changes in these assumptions; • provides an overview of estimated tax expenditures in the budget; and • provides a statement of the risks that may have a material effect on the estimated financial statements. 	Budget Paper No. 2, Chapter 2 <i>Economic Conditions and Outlook</i> Budget Paper No. 4, Chapter 1 <i>Estimated Financial Statements and Notes</i> Budget Paper No. 4, Chapter 4 <i>Tax Expenditures and Concessions</i> Budget Paper No. 2, Chapter 6 <i>Statement of Risks</i>
Section 40 of the <i>Financial Management Act 1994</i>	Statement of information under departmental headings setting out: <ul style="list-style-type: none"> • the description of goods and services to be produced or provided by each department during the period to which the statement relates, together with comparative information for the preceding financial year; and • estimated amount of receipts and receivables of each department during the period, together with comparative figures. 	Budget Paper No. 3, Chapter 3 <i>Departmental Output Statements</i> Budget Paper No. 4, Chapter 2 <i>Departmental Financial Statements</i>
Section 16B of the <i>Audit Act 1994</i>	The Auditor-General review and report on the estimated financial statements to ensure they are consistent with accounting convention and that the methodologies and assumptions used are reasonable.	Budget Paper No. 4, Chapter 1 <i>Estimated Financial Statements and Notes</i>

Source: 2004-05 Victorian Budget: Your guide to the structure of the State Budget Papers, p.4

The Committee acknowledges that the guide provides a clear overview of the changes to the structure of the Budget Papers and the location of the statutory budget information in the Budget Papers.

The Committee recommends that:

Recommendation 14: The Department of Treasury and Finance include a Budget guide in future Budget Papers.

4.3 Discontinued outputs and performance measures

The Committee noted that a new section summarising discontinued outputs and performance measures was included as Appendix D to Budget Paper No. 3 *2004-05 Service Delivery*.⁴ The appendix lists in detail the two outputs and 231 performance measures that were discontinued in 2004-05.⁵

However, only a few departments provided comments to explain the discontinuation of outputs and performance measures,⁶ including the Department of Human Services which provided comprehensive comments for its discontinued outputs and performance measures.⁷

The Committee endorses the consolidation of discontinued outputs and performance measures in the manner presented in Budget Paper No. 3 *2004-05 Service Delivery*. However, the Committee believes that all departments should provide explanations for their discontinued outputs and performance information.

The Committee recommends that:

Recommendation 15: The Department of Treasury and Finance direct all departments to explain the discontinuation of outputs and performance measures as detailed in Budget Paper No. 3 *Service Delivery*.

4.4 Departmental output statements

The Committee is cognisant that the changes introduced to the Budget Papers were aimed at providing a whole of government focus that is linked to the Government's key outcomes, as distinct from providing comprehensive details for every department.

⁴ Budget Paper No.3, *2004-05 Service Delivery*, pp.333–357

⁵ *ibid.*

⁶ *ibid.*

⁷ *ibid.*, pp.336–337

Budget Paper No. 3 *2004-05 Service Delivery* was structured to link the Government's key priorities and outcomes, to the outputs to be delivered by the departments.

Chapter 3 of Budget Paper No. 3 *2004-05 Service Delivery* contains the departmental output statements which indicate the relationship between the departments' outputs, the budget priorities and the key Government outcomes to be achieved by the departments.⁸ The departmental output statements comprise three components:

- output structure - this is the text commentary that explains the changes to departmental output structures and the explanation of why the changes have occurred, see exhibit 4.4.;
- output classification - this information is presented by output group basis and discusses the outputs that are covered in the output group, explanations of how these outputs contribute to the Government's desired outcomes and the linkages between the outputs and the Government's desired outcomes, see exhibit 4.5; and
- output tables – presented in a table format, which details the performance measures and costs for each output, see exhibit 4.6.

An example of a departmental output statement is shown in the following exhibits.

⁸ Budget Paper No.3, *2004-05 Service Delivery*, p.1

**Exhibit 4.4: Departmental output statement –
output structure information**

DEPARTMENT OF EDUCATION AND TRAINING			
The Department has introduced the following changes to its 2004-05 output structure:			
2004-05 Outputs	Explanation		
	New Output	Consolidation	Title Change
Early Years		Primary Education Junior Education Non-Government Education	
Middle Years		Primary Education Junior Education Non-Government Education	
Later Years		Primary Education Junior Education Non-Government Education	
Training and Further Education		Training and Further Education Places	
Adult and Community Education		Adult and Community Education Places and Community Support	
Cross-Sectoral		Senior Secondary Education Training and Further Education Places Adult and Community Education Places and Community Support Policy, Strategy and Executive Services	
Services to Students		Student Welfare Support Services to Students and Disabilities Education Maintenance Allowance Student Transport	
Services to Ministers and Policy		Policy, Strategy and Executive Services Public Information and Promotion	
Regulation		Non-Government Education Higher Education International Education	
<p>The new output structure focuses on students in compulsory years, those in post-compulsory years, services to support students and services to manage the portfolio.</p> <p>Key factors leading to the revision of the output structure and associated performance measures for 2004-05 include:</p> <ul style="list-style-type: none"> the shift from a provider to a client focus based on student progression along the key stages of learning; and the policy focus on the student cohort in the immediate post-compulsory years and associated cross-sectoral initiatives to improve the attainment of a Year 12 or equivalent qualification. <p>The new output structure will better support the achievement of the Government's policy objectives, resourcing intentions and accountability requirements for education and training.</p>			

Source: *Budget Paper No. 3, 2004-05 Service Delivery, pp.52-53*

Exhibit 4.5: Departmental output statement – output classification information

Compulsory Years

These outputs involve the provision of education and associated services designed to improve the quality of student learning of those in Prep–Year 10 in government and non–government schools. It comprises two outputs.

The ‘early years’ is concerned with developing the essential skills necessary for ongoing progress in education and providing learning experiences to engage young minds. Literary and numeracy are foremost among the skills learnt during these foundation years.

The ‘middle years’ of schooling is a fundamental stage of learning where students growing from childhood to adolescence consolidate competency in literary and numeracy, and their physical, social, emotional and intellectual development of early adolescence. It is also a stage when they attain a greater breadth of knowledge and learning, including extending their capacity for creative and critical thinking.

These outputs include development and management of education programs and curriculum.

The Compulsory Years outputs, along with other education and training outputs, are the primary mechanism through which the Government will achieve its key outcome: Valuing and investing in lifelong education. These outputs will also make a significant contribution to the following key Government outcomes:

- growing and linking all of Victoria;
- building cohesive communities and reducing inequalities; and
- promoting rights and respecting diversity.

Source: *Budget Paper No. 3, 2004-05 Service Delivery, p.54*

Exhibit 4.6: Departmental output statement – output tables information

Major Outputs/Deliverables Performance measures	Unit of measure	2002-03 Actual	2003-04 Target	2003-04 Expected Outcome	2004-05 Target
Early Years					
This output involves provision of education and other associated services designed to improve the quality of student learning of those in Prep–Year 4 in government and non–government schools.					
Quantity					
Additional principals accessing new leadership programs	per cent	nm	8.0	8.0	8.0
Average P–2 class size	number	21.8	21.0	21.0	21.0
Average years 3–6 class size	number	24.8	24.8	24.3	24.8

Source: *Budget Paper No. 3, 2005-05 Service Delivery, p.54*

The Committee’s observations on the quality of the information contained in the departmental output statements are discussed in the following sections.

4.4.1 Changes to departmental outputs

For 2004-05, most departments changed their output structures to reflect the outputs that they will be delivering. The Committee noted that these changes have been reflected in a table in the departmental output statements, along with the reasons for the change. An example of is shown in exhibit 4.4 .

The Committee welcomes the additional disclosures in this year's departmental output statement, reiterating that this disclosure improves the quality of information.

4.4.2 Disclosure of departmental objectives

As indicated previously, Budget Paper No. 3, *2004-05 Service Delivery* is intended to be the primary source of information for readers interested in the detailed delivery plans of departments.⁹ However, because of the whole of government focus in the current Budget Papers, the departmental output statements no longer provide comprehensive details for every department.

For example, the Committee noted that a comparison with the 2003-04 Budget Paper No. 3 *2003-04 Budget Estimates* showed that the departmental output statements previously provided details that include:¹⁰

- an overview of the department, including its role and functions;
- a summary of departmental objectives; and
- the department's priorities for the budget year.

The Committee observed that the departmental output statements in the 2004-05 Budget Paper No. 3 *2004-05 Service Delivery* did not include similar narratives (see exhibits 4.4 to 4.6.¹¹

The Committee considers that such information is useful in defining the respective contributions of each department towards achieving the Government's outcomes outlined in the *Growing Victoria Together* strategy.

The Committee believes that key departmental information should be reinstated in future departmental output statements. The Committee considers that this information would enable users of the Budget Papers to understand the key factors that have influenced the formulation of individual departmental budgets, as well as provide details of the key activities and priorities of the departments for the budget year.

The Committee recommends that:

⁹ Budget Paper No.3, *2004-05 Service Delivery*, p.1

¹⁰ for detailed examples, refer to Budget Paper No.3, *2003-2004 Budget Estimates*, pp.17–26

¹¹ Budget Paper No.3, *2004-05 Service Delivery*, pp.52–258

Recommendation 16: **The Department of Treasury and Finance require each department to include a narrative on the following issues in the departmental output statements:**

- (a) a summary of the departmental objectives linked to the Government's outcomes;**
- (b) the key factors which influenced the formulation of the departmental budget; and**
- (c) the department's key priorities for the budget year.**

4.4.3 *Ministerial responsibilities*

Departments are the mechanisms by which the Government implements its policies. For 2004-05, there are ten departments servicing 20 Ministers who are collectively responsible for 41 ministerial portfolios. As shown in exhibit 4.7, several ministerial portfolios are responsible for each department.

Exhibit 4.7 Ministerial portfolio responsibilities

Department	Number of Ministers (a)	Ministerial portfolio
Education and Training	2	Education and Training Education Services
Human Services	4	Health Housing Community Services Aged Care
Infrastructure	3	Transport Major Projects Energy Industries Information and Communication Technology
Innovation, Industry and Regional Development	5	State and Regional Development Innovation Manufacturing and Export Financial Services Industry Industrial Relations Small Business Tourism
Justice	4	Attorney-General Police and Emergency Services Corrections Gaming Racing Consumer Affairs
Premier and Cabinet	2	Premier Arts
Primary Industries	2	Agriculture Resources
Sustainability and Environment	2	Environment Water Planning
Treasury and Finance	3	Treasurer Finance WorkCover
Victorian Communities	7	Victorian Communities Multicultural Affairs Sport and Recreation Commonwealth Games Employment and Youth Affairs Local Government Aboriginal Affairs Women's Affairs

Note: (a) Several Ministers have portfolio responsibilities across departments

The departmental output statements currently do not indicate the ministerial portfolio responsibilities within departments. The Committee believes it is important for users of the Budget Papers to be able to distinguish which Ministers are responsible for each department.

The Committee recommends that:

Recommendation 17: **The Department of Treasury and Finance require each department to include in the departmental output statements, information on the relevant ministerial portfolios for each department.**

The relationship between ministerial responsibility and outputs can be complex. As shown in exhibit 4.7, each department has more than one Minister. Ministers have responsibility for outputs of their departments and they generally assume sole responsibility for their outputs. In some departments Ministers share responsibility for an output. For example:

- Department of Education and Training – the department has two Ministers and seven of nine outputs are shared;
- Department of Innovation, Industry and Regional Development – the department has five Ministers and six of 12 outputs are shared;
- Department of Sustainability and Environment – the department has two Ministers and one of 11 outputs are shared;
- Department of Treasury and Finance – the department has three Ministers and seven of 20 outputs are shared.

The Committee considers that disclosure of information in the departmental output statements on the collective responsibilities of each Minister for outputs delivered on behalf of portfolios would strengthen accountability for output performance.

The Committee recommends that:

Recommendation 18: **The Department of Treasury and Finance require each department to indicate in the departmental output statements, the Minister responsible for each of the department's outputs.**

4.4.4 Output group summary

The departmental output statements in Budget Paper No. 3 *2004-05 Service Delivery* contain over 200 pages of information which lists the output costs for each output.¹² For 2004-05, there are 71 output groups, comprising 231 outputs.¹³

Given the significant quantum of information contained in these pages, the Committee believes that an output group summary table detailing output costs should be included in the departmental output statements. The Committee noted that a summary table was produced for the departmental output statement in the 2003-04 Budget Paper No. 3 *2003-04 Budget Estimates*. An example of this output summary table is reproduced in exhibit 4.8.

Exhibit 4.8: Output summary table

	(\$ million)		
	2002-03 Budget	2002-03 Revised	2003-04 Budget
School Education	4,824.3	5,085.4	5,203.0
Training and Tertiary Education	992.2	1,000.3	1,019.6
Youth	5.1	5.2	-
Policy, Strategy and Information Services	33.6	36.9	35.8
Total	5,855.2	6,127.8	6,258.4

Source: *Budget Paper No. 3, 2003-04 Budget Estimates, p.26*

The Committee considers that the inclusion of a summary table in the departmental output statement will provide users of the Budget Papers with a snapshot of the output group costs for the department.

The Committee recommends that:

Recommendation 19: **The Department of Treasury and Finance require each department to include in the departmental output statements, an output group summary table.**

¹² *ibid.*

¹³ *ibid.*

4.4.5 Changes to targets in performance measures

Included in the departmental output statements is a set of output tables that list the performance measures and targets for each output. An example of this output table is shown in exhibit 4.6.

The Committee noted that most departments provided explanations where there were significant changes to the targets established for their performance measures. The Committee commends the Department of Human Services and the Department of Infrastructure for providing comprehensive explanations for their performance measures. The Committee is disappointed that other departments did not provide the same level of disclosure. The Committee welcomes the disclosure by these two departments and considers that other departments should follow these examples.

The Committee considers that these explanations provide additional clarity and further enhance the transparency of departmental activities as the factors influencing the amendment of targets are disclosed to Parliament for consideration. The Committee would also like to see further disclosures explaining significant variances to output costs of more than 10 per cent.

The Committee recommends that:

Recommendation 20: **The Department of Treasury and Finance include in the departmental output statements for each department, comprehensive explanations for significant variances in performance measures and targets, along with any major changes in output costs.**

4.5 Departmental financial statements

Chapter 2 of Budget Paper No. 4 *2004-05 Statement of Finances* presents the financial statements for each department.¹⁴ The Committee noted that commentaries are also provided to explain the major variances in the departmental financial statements.¹⁵

The Committee noted that these commentaries did not identify the entities whose financial results were consolidated into the departmental financial statements and the resultant departmental results. As an example, the Budget Financial Statements (also known as the Estimated Financial Statements),¹⁶ represent the consolidated results of general government sector entities and the entities are listed with the Estimated

¹⁴ for example, see Department of Education and Training, pp.46–49 of Budget Paper No.4 *2004-05 Statement of Finances*

¹⁵ for example, see Department of Education and Training, pp.44–45 of Budget Paper No.4 *2004-05 Statement of Finances*

¹⁶ Budget Paper No. 4 *2004-05 Statement of Finances*, pp.6–42

Financial Statements.¹⁷ This information for the general government sector is located in pages 38 to 42 of Budget Paper No. 4 *2004-05 Statement of Finances*.

The Committee believes that the disclosure of similar information for each department in the financial statements commentaries in Chapter 2 of Budget Paper No. 4 *2004-05 Statement of Finances* would improve the transparency of the departmental financial results, as the extent of the contribution of individual entities or agencies toward departmental outputs would become transparent and enable discussion on performance.

The Committee recommends that:

Recommendation 21: **The Department of Treasury and Finance require each department to include in the commentary in the departmental financial statements section of Budget Paper No. 4 *Statement of Finances*, a list of agencies that were included in the departmental financial statements along with their contribution to departmental outputs.**

¹⁷ *ibid.*, pp.38–42

