

CHAPTER 14: DEPARTMENT OF TREASURY AND FINANCE

Key Findings of the Committee:

- 14.1** The Department of Treasury and Finance's budget in 2004-05 is \$185.7 million, an increase of \$10.3 million from the 2003-04 estimated actual budget. The increase is largely attributed to the establishment of the Victorian Competition and Efficiency Commission in 2004, and higher output prices for services within Strategic Policy Advice and Financial Management Services output groups.
- 14.2** \$380,000 has been carried over from 2003-04, comprising \$300,000 for infrastructure projects, and \$80,000 for improvements to business management systems.
- 14.3** The department's administered liabilities are forecast to rise by \$1 billion due to the discontinuation of the Smelter Reduction Amount following a decision to indemnify the State Electricity Commission of Victoria for its liability under Electricity Supply Agreements with aluminium smelters at Point Henry and Portland.
- 14.4** Under present Commonwealth-State arrangements for the collection and distribution of GST, Victoria is estimated to generate \$8.8 billion in GST revenue but will receive only \$7.07 billion in GST grants.
- 14.5** The Parliament and the Public Accounts and Estimates Committee have not been formally advised of amendments to the Budget Papers, including details relating to GST subsidies paid to other states and territories.
- 14.6** To remedy anomalies in the Commonwealth Grants Commission's GST tax distribution methodology, Victoria was instrumental in bringing about a review of some aspects of these arrangements, which will be conducted by Heads of Treasuries in all Australian jurisdictions.
- 14.7** Victoria receives significantly less than it would receive on a per capita distribution of Commonwealth Specific Purpose Payments grants.
- 14.8** The development of formal protocols could assist with ensuring that advice from the Victorian Competition and Efficiency Commission would be independent and rigorous.

- 14.9** The Department is seeking to ensure the adoption of Australian equivalents to International Financial Reporting Standards by public sector agencies on 1 January 2005. Funding of \$1.5 million in 2004-05 has been provided for training and development of staff.
- 14.10** Good governance within the Victorian Public Service would be enhanced by full and comprehensive public reporting on the outcomes of the compliance and certification reporting process under the Financial Management Compliance Framework.
- 14.11** The Department of Treasury and Finance Financial Management Knowledge Centre website should be made accessible to the public.
- 14.12** Under revised whole of government vehicle lease arrangements, appropriate risks associated with vehicle fleet operations will be transferred to departments.
- 14.13** Actuarial advice obtained by the Victorian WorkCover Authority indicated that following the WorkCover premium reductions, the Scheme will achieve full funding by June 2006.
- 14.14** Performance measures used by WorkCover to assess the effectiveness of farm safety strategies need to focus on outcomes.

Departmental review

14.1 Departmental overview

The Department of Treasury and Finance provides services to three portfolios: Treasury, Finance and WorkCover. The department provides the Government with economic, financial, commercial and resource management advice and performs a monitoring role to ensure the state's financial, accounting and reporting obligations are met.¹

The department is responsible for the operation of three agencies:

- the State Revenue Office (SRO), the Government's main tax collection agency;²

¹ Department of Treasury and Finance, About us: Structure and functions, www.treasury.vic.gov.au, accessed 19 October 2004

² State Revenue Office, About SRO, www.sro.vic.gov.au, accessed 10 October 2004

- the Essential Services Commission, an independent economic regulator which regulates essential utility services;³ and
- the Victorian Competition and Efficiency Commission, reviews regulatory impact statements, undertakes inquiries into matters referred to it by the Government, and operates Victoria's Competitive Neutrality Unit.⁴

14.1.1 Key challenges for the Department in 2004-05

The Department of Treasury and Finance is implementing several initiatives in 2004-05 including the establishment of the Victorian Competition and Efficiency Commission and stewardship for the whole of government changes to the Australian accounting framework.⁵ Other additional expenditure and activities include:⁶

- on-going funding of \$4 million for the State Revenue Office land rich team to ensure compliance with duty legislation involving land rich companies and trusts (\$1 million in 2004-05);
- purchase by the State Revenue Office from local councils of land valuation details over two years at an estimated cost of \$18 million (\$15.7 million in 2004-05);
- increased funding of \$13 million over four years (\$5.7 million in 2004-05) for information and communication technology for the Department of Treasury and Finance and the Department of Premier and Cabinet; and
- the administration of the \$5000 first home bonus grant (\$128 million in 2004-05).

The Committee was advised that there are a number of risks relevant to the Department of Treasury and Finance and its portfolio agencies including:⁷

- changes to accounting standards which could result in incorrect budget and financial information;
- unsuccessful implementation of the whole of government compliance framework and tax compliance framework;
- slowness by departments to implement new vehicle fleet financing or management arrangements;

³ Essential Services Commission, Establishment of the Essential Services Commission, www.esc.vic.gov.au, accessed 19 October 2004

⁴ Victorian Competition and Efficiency Commission, About us, www.vcec.vic.gov.au, accessed 19 October 2004

⁵ Mr I. Little, Secretary, Department of Treasury and Finance, transcript of evidence, 19 May 2004, p.3

⁶ Budget Paper No. 3, *2004-05 Service Delivery*, pp.301–302

⁷ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, p.5

- privacy legislation limiting the State Revenue Office's ability to use databases for SRO's compliance and targeting functions with consequent revenue risk;
- land rich provisions not well understood by the public; and
- the impact on the core business of the Essential Services Commission of undertaking two major price determinations in 2004-05.

14.1.2 Key factors influencing the budget estimates

The Committee was informed that the department's estimates for 2004-05 were initially developed to ensure continuation of core services but that additional funding was required as a result of external factors or new policy directions and initiatives, for example:⁸

- establishing the Victorian Competition and Efficiency Commission to create a more efficient and effective regulatory environment;
- recognising the need for additional resources in budget advice and financial reporting in the current economic climate to ensure the benefits of the new funding model would be realised and the international accounting standards implemented;
- ensuring that accounting skill levels are enhanced to implement the new international accounting standards and harmonisation between Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP);
- upgrading information, communication and technology infrastructure across the Department of Treasury and Finance and the Department of Premier and Cabinet; and
- additional resources for the Insurance Policy output.

14.2 Output management framework

The 20 outputs delivered by the Department of Treasury and Finance in 2004-05 are arranged into six output groups. Responsibility for outputs is sometimes shared between Ministers (see exhibit 14.1).

⁸ *ibid.*, p.4

**Exhibit 14.1: Department of Treasury and Finance
Ministerial responsibilities**

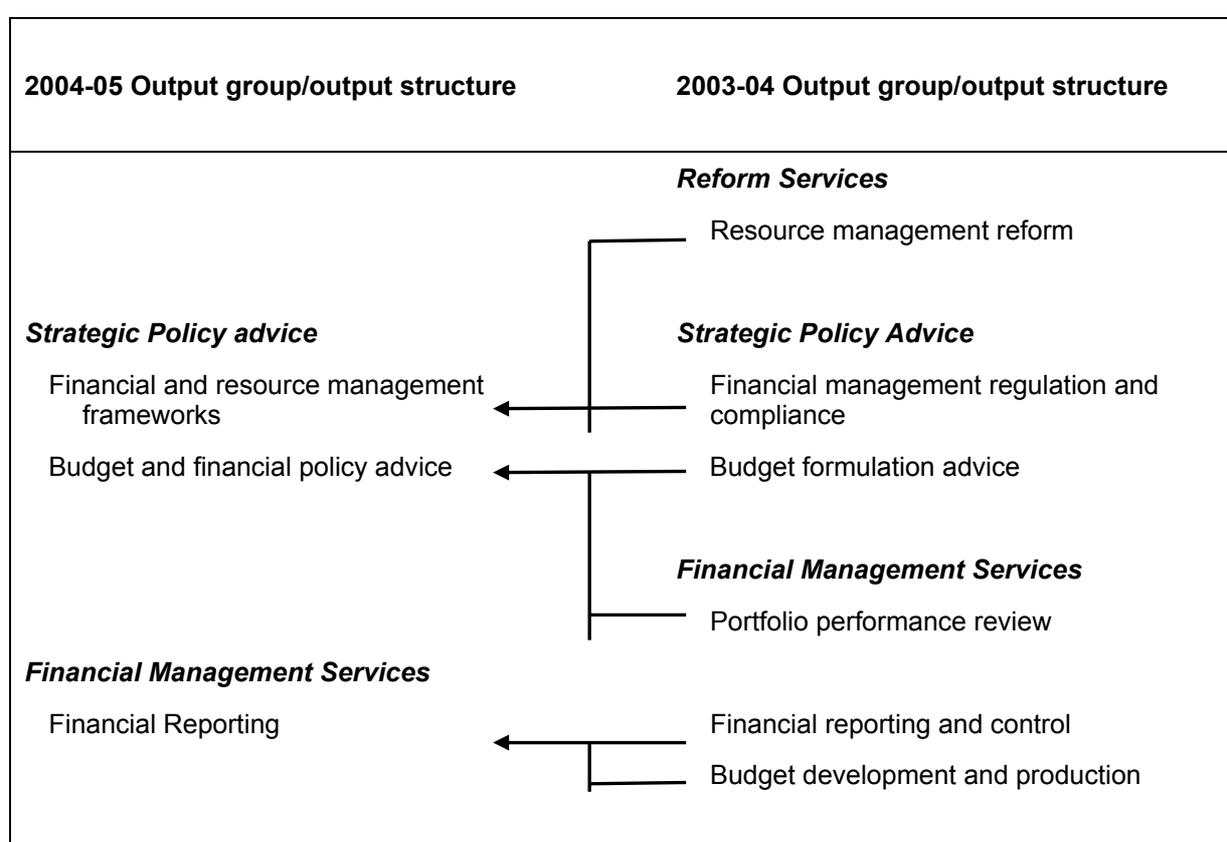
Output group and output	Responsible Minister		
	Treasurer	Finance	WorkCover
Strategic Policy Advice			
Financial and Resource Management Frameworks	✓	✓	
Budget and Financial Policy Advice	✓	✓	
Strategic Policy and Research	✓		
Financial and Risk Management Policy Advice	✓	✓	
Economic, Social and Environmental Policy Advice	✓	✓	
Inter-government Financial Relations Policy Advice	✓		
Taxation (State Revenue) Policy Advice	✓		
Insurance Policy Advice		✓	✓
Financial Management Services			
Financial Reporting	✓	✓	
Taxation (State Revenue) Monitoring and Forecasting Services	✓		
GBE Performance Monitoring Services	✓		
Risk Management Services			
Commercial and Infrastructure Project Management	✓		
Prudential Supervision and Financial Asset/Liability Management	✓	✓	
Resource Management Services			
Procurement Services		✓	
Government Accommodation Services		✓	
Government Land and Property Services		✓	
Management of Motor Vehicle Leases		✓	
Regulatory Services			
Economic Regulatory Services		✓	
Business Environment Policy Advice	✓		
Revenue Management Services			
Revenue Management Services to Government	✓		

Source: Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp. 1-2

14.2.1 Output structure

The department introduced several changes in 2004-05 to its output structure. The Committee noted that six outputs in the 2003-04 Budget Papers related to the State budget and financial management were merged into three outputs for 2004-05, with the new framework intended to better reflect the services to Government in areas of financial management reporting and advice.⁹ The changes are summarised in exhibit 14.2.

Exhibit 14.2 Restructure of the Financial management, reporting and policy advice output



Sources: *Budget Paper No. 3, 2004-05 Service Delivery, p.218; Budget Paper No. 3, 2003-04 Budget Estimates, pp.352-369*

The Committee noted that a new output – Business Environment Policy Advice – was established in 2004-05 as part of the Regulatory Services output group.¹⁰ The output will reflect the work of the Victorian Competition and Efficiency Commission (see section 14.5.3(b)).

⁹ Budget Paper No. 3, 2004-05 Service Delivery, pp.218-219

¹⁰ Budget Paper No. 3, 2004-05 Service Delivery, p.218

Several minor changes were also made to the names of two outputs, with the Statutory Insurance Advice output changing to Insurance Policy Advice and the Economic, Regulatory, Environmental and Social Policy Advice output changing to Economic, Social and Environmental Policy advice.¹¹ The Committee noted that despite these changes, the activities undertaken within these outputs has not altered.¹²

14.2.2 Performance measures

The delivery of the department's 20 outputs is assessed using 134 performance measures covering quantity (60 measures), quality (32 measures) and timeliness (42 measures).¹³ Of these, the department advised the Committee that 17 were new performance measures, including three measures that were combined as a result of output mergers.¹⁴

The Committee noted that two of the new performance measures were included in the Financial and Resource Management Frameworks output relating to the introduction of the international accounting framework across government.¹⁵ The Committee welcomes the inclusion of these measures, which provide an important indicator of the Government's progress in meeting the timelines for the introduction of new accounting standards (see section 14.6.3 (a) (i)).

As previously discussed, the Business Environment Policy Advice output was established as a new output in 2004-05 within the Regulatory Services output group.¹⁶ The effectiveness of the new output will be assessed by four performance measures covering the number of public enquiries and reviews of regulatory impact statements, the quality of advice provided to Ministers and the completion of the assessment phase of regulatory impact reviews within five days of receipt.¹⁷

The Department of Treasury and Finance discontinued 34 performance measures in 2004-05.¹⁸ The Committee noted that 14 of these discontinued measures were formerly part of the six outputs that were merged into three outputs for 2004-05.¹⁹ A further five measures related to projects or initiatives that were completed.²⁰

The Committee noted that due to the overlap of ministerial responsibility across some outputs, some of these measures are shared across portfolios. For example, several

¹¹ *ibid.*

¹² *ibid.*

¹³ Budget Paper No. 3, 2004-05 *Service Delivery*, pp.220–236

¹⁴ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, p.7, 36

¹⁵ Budget Paper No. 3, 2004-05 *Service Delivery*, pp.220–221

¹⁶ *ibid.*, p.218

¹⁷ *ibid.*, p.234

¹⁸ *ibid.*, pp.352–354

¹⁹ *ibid.*

²⁰ *ibid.*

outputs have the quality measure *Service provision rating (Ministerial survey data)*, which relates to all Ministers who have responsibility for an output.²¹

The Committee noted that the expected outcome in 2003-04 for the performance measure *Briefing on insurance policy matters* was 220, compared to a target of 60 in both 2003-04 and 2004-05.²² No explanation was included in the Budget Papers for this variation, or variations of a similar magnitude for two other measures in this output group. This was despite the Department of Treasury and Finance including notes within the same output group to explain differences for four other performance measures.²³

The Committee believes that where there are significant differences between targeted and actual performance information, the department should provide an explanation in the Budget Papers.

The Committee recommends that:

Recommendation 148: **The Department of Treasury and Finance provide an explanation for significant differences between targeted and expected performance information in the Budget Papers.**

14.3 Budget summary/financial analysis

As shown in exhibit 14.3, the department's budget allocation for 2004-05 is \$185.7 million, representing an increase of \$10.3 million (or 5.9 per cent) compared to the 2003-04 estimated actual budget.

²¹ *ibid.*, pp.220–236

²² *ibid.*, p.224

²³ *ibid.*, pp.224–225

**Exhibit 14.3: Department of Treasury and Finance
Output costs**

	Column 1	Column 2	Column 3	Column (3-2)/2
Output Group	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Strategic Policy Advice	(b) 28.5	(b) 29.7	(c) 41.3	39.1
Financial Management Services	19.9	21.6	(c) 16.8	-22.2
Regulatory Services	13.0	12.6	15.0	19.0
Resource Management Services	44.5	40.0	41.8	4.5
Risk Management Services	11.1	11.7	12.7	8.5
Revenue Management Services	61.4	59.8	58.1	-2.8
Total	178.4	175.4	185.7	5.9

- Notes:
- (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual budget
 - (b) Includes costs associated with the former Reform Services output group, which was merged into the Strategic Policy Advice output group in 2004-05
 - (c) Not directly comparable to previous years because of a consolidation of outputs within and across the Strategic Policy Advice and Financial Management Services output groups

Source: Department of Treasury and Finance's response to the Committee's 2004-05 Budget Estimates questionnaire, p.20

The Committee noted that most of the additional \$10.3 million allocated to the department's outputs in 2004-05 relates to additional resources provided to services delivered under the Strategic Policy Advice and Financial Management Services output groups, with the department advising that:²⁴

... output prices have further changed for the Strategic Policy Advice and Financial Management Services output groups as a result of: \$1.5 million of internal funding reallocation to further enhance the achievement of core output deliverables; \$1.2 million of funding resulting for employee costs under the enterprise bargaining agreement; \$1.7 million effect of funding received for information and communication technology initiatives that impact upon all outputs; and \$1.5 million for the whole of government stewardship of changes to the Australian Accounting framework.

²⁴ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.20-21

The department advised the Committee that an additional \$2.8 million was allocated to the Regulatory Services output group to reflect the establishment of the Victorian Competition and Efficiency Commission (see section 14.5.3(b)).²⁵

14.3.1 Operating performance

In 2004-05, The Department of Treasury and Finance anticipated receiving \$238.8 million in revenue for its controlled operations, 3 per cent less than its budgeted expenditure and 1.4 per cent less than in 2003-04 (see exhibit 14.4). The forecast reduction in the budget deficit to \$7.3 million in 2004-05 is largely due to the change in financing arrangements for the whole of government motor vehicle lease arrangements.²⁶

Given the department's role as a tax collection agency and as administrator of the State's superannuation schemes, administered revenue and expenses are substantially higher than controlled items.²⁷

**Exhibit 14.4: Department of Treasury and Finance
Statement of Financial Performance**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Operating revenue	228.9	242.3	238.8	-1.4
Operating expenses	255.4	260.3	246.1	-5.5
Net Result (b)	-26.5	-18.0	-7.3	-59.4
Administered items				
Administered revenue	18,591.1	19,269.6	20,062.1	4.1
Administered expenses	19,042.3	19,895.1	20,757.5	4.3
Surplus/Deficit (b)	-451.2	(c) -625.6	-695.4	11.2

Notes: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 revised budget

(b) A negative dollar value indicates a deficit

(c) Reported result adjusted for rounding purposes

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.101, 104

²⁵ ibid, p.21

²⁶ Budget Paper No. 4, 2004-05 Statement of Finances, p.99

²⁷ ibid., pp.100-101, 104

The department informed the Committee of the following reasons for major variations in terms of administered revenue between the estimated actual budget estimates for 2003-04 and the budget estimates for 2004-05 of \$792.5 million:²⁸

- an increase of \$773.4 million for payments made on behalf of the state, providing for the inclusion of the Treasurer's Advance of \$474 million, receipt of \$139 million to fund the First Home Owner Grant scheme and \$181 million to fund the new Vehicle Leasing Trust;
- an increase of \$231.4 million for additional GST related Commonwealth grants;
- an increase in other revenue of \$573 million providing for:
 - higher dividend revenue of \$176.9 million due to the re-commencement of dividend payments from the Transport Accident Commission offset by lower water industry dividends due to water restrictions, reduced consumption, and less land development activity;
 - higher capital assets charges revenue of \$210.7 million paid by departments due to growth in capital asset stocks and the revaluation of existing assets; and
 - revenue transfer between funds of \$181 million;
- less reductions in special appropriation revenue of \$734.7 million due mainly to bringing forward superannuation payment obligations in 2003-04, and a decline in tax revenues of \$50 million due to reduction of land transfer and mortgage duties collections.

The department explained that the increase in administered expenses between the estimated actual budget estimates for 2003-04 and the budget estimates for 2004-05 of \$862.4 million is mainly due to:²⁹

- an increase in expenses on behalf of the state of \$1,041.3 million to provide outgoings from revenue received as payments made on behalf of the state (which include payments from Treasurer's Advance of \$474 million, together with payment of \$138.9 million to fund the First Home Owner Grant scheme, \$181 million to fund the new Vehicle Leasing Trust, and \$124 million to fund unfunded superannuation liabilities);
- an increase of \$875.7 million in payments into the Consolidated Fund; and
- less a reduction in grants and other payments of \$1.2 billion due to a decision in 2003-04 to cease collection of the Smelter Reduction Amount from 30 June 2004 and assume liability for obligations under Electricity Supply Agreements with aluminium smelters at Point Henry and Portland at a cost of \$1.4 billion.

²⁸ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.13-14, pp.18-19, 24

²⁹ *ibid.*, pp.12-14, 18-19

The cumulative result of the above changes in revenue and expenditure is a projected deficit for administered transactions of \$695.4 million in 2004-05, an increase of \$69.8 million above the revised deficit for 2003-04.

In response to a request from the Committee on details of how the deficit arising from administered transactions is funded, the department provided the following comments:³⁰

The administered items statement is constructed on an accrual basis and covers those items that are administered by relevant departments on behalf of the State, which do not directly reflect the operations of the Department. Items contained in the administered statement are usually on-passed or administered by the State. In DTF, they mainly relate to payments for interest, superannuation and the Treasurer's Advance contingency. The table in 2004-05 Budget Paper No 4 on page 104 provides details of the administered items for the 2003-04 Budget, 2003-04 Revised and 2004-05 Budget.

The main reason for the deficits recorded in the table on page 104, is the impact of movements in the unfunded superannuation liability. The unfunded liabilities of the State's superannuation schemes represent the present value of future benefits that members have already accrued that are not covered by fund assets. When this liability is re-valued under generally accepted accounting principles it results in an expense being recorded. This expense may result in an administered deficit, however, as there is no cash required it does not have to be funded until the liability crystallises in some future time period. When the cash is required to pay members their accrued benefits, appropriation authority will be provided.

In the case of 2003-04 Revised, DTF has also recorded a once-off expense relating to the cessation of the Smelter Reduction Amount. This expense is recorded to enable the recognition of a future liability that will be paid out over a number of years. As such, the revenue will be appropriated on an annual basis as required.

The Committee notes the department's response. In view of the magnitude of administered revenue and expenses being in excess of \$20 billion in 2004-05, the Committee intends to separately report on this matter as part of its review of the management and control of parliamentary appropriations.

³⁰ Department of Treasury and Finance response to the Committee's follow-up questions

14.3.2 Balance sheet performance

Exhibit 14.5 shows that the department's net asset position is expected to improve by about \$13 million from 30 June 2004 to 30 June 2005. This increase reflects the winding down of the whole of government motor vehicle lease facility (which decreases both the value of assets and interest bearing liabilities).³¹

The value of administered assets is expected to rise by \$290.1 million between 30 June 2004 and 30 June 2005 due to general increases in investment balances as a result of the improvement in the Government cash holding position.³² However, administered liabilities are forecast to rise by \$1 billion mainly due to the discontinuation of the Smelter Reduction Amount.

**Exhibit 14.5: Department of Treasury and Finance
Statement of Financial Position**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Controlled assets	552.0	508.9	424.8	-16.5
Controlled liabilities	326.2	276.3	179.1	-35.2
Net assets	225.8	(b) 232.7	245.7	5.6
Administered items				
Administered assets	849.4	785.4	1,075.5	36.9
Administered liabilities	19,698.0	19,808.3	20,829.5	5.2

Notes: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual budget

(b) Reported result adjusted for rounding

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.103–104

14.3.3 Carry over funding

The 2004-05 Budget includes \$380,000 of funding carried over from the previous year. The department advised that this funding will be applied to the following programs:³³

³¹ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.21–22

³² *ibid.*, p.23

³³ Treasurer of Victoria's response to the Committee's follow-up questions, p.5

- \$200,000 for Partnerships Victoria enhancements - infrastructure project management;
- \$100,000 for Gateway infrastructure reviews - infrastructure project management; and
- \$80,000 for enhancements to Business Management Systems - financial reporting and control.

14.4 Human resources issues

Exhibit 14.6 shows that the total number of estimated staff in the department in June 2004 was 503.1 (on an equivalent full time basis). This represents an increase of 22.7 staff (about five per cent) compared to June 2003.

The department's staffing numbers provided to the Committee exclude the Essential Services Commission (42 staff as at 30 June 2003) and the State Revenue Office.³⁴ The department informed the Committee that their June 2005 workforce numbers are likely to increase by 16 compared with June 2004,³⁵ and the increase in staff numbers is primarily the result of the Government's decision to establish the Victorian Competition and Efficiency Commission.³⁶ While the number of executive officers is expected to rise by four over this period, the Committee notes the department's annual report shows that there were six executive officer vacancies in June 2003.³⁷

³⁴ Department of Treasury and Finance, *Annual Report 2002-03*, p.98; Essential Services Commission, *Annual Report 2002-03*, p.65; Department of Treasury and Finance response to the Committee's follow-up questions

³⁵ Department of Treasury and Finance's response to the Committee's 2004-05 Budget Estimates questionnaire, p.11

³⁶ Department of Treasury and Finance response to the Committee's follow-up questions

³⁷ Department of Treasury and Finance, *Annual Report 2002-03*, p.97

**Exhibit 14.6: Department of Treasury and Finance
Equivalent Full Time Staff**

	June 2003 Actual	June 2004 Estimate	June 2005 Estimate
Ongoing staff			
Executive Officer	72.0	74.0	78.0
Other (includes VPS Grade 1 to 6)	376.3	395.1	407.1
Sub total	448.3	469.1	485.1
Casual staff (a)			
Executive Officer	0.0	0.0	0.0
Other (includes VPS Grade 1 to 6)	6.0	4.0	4.0
Sub total	6.0	4.0	4.0
Fixed term staff			
Executive Officer	0.0	0.0	0.0
Other (includes VPS Grade 1 to 6)	26.1	30.0	30.0
Total	26.1	30.0	30.0
All staff			
Executive Officer	72.0	74.0	78.0
Other (includes VPS Grade 1 to 6)	408.4	429.1	441.1
Total	480.4	503.1	519.1

Note: (a) The Department of Treasury and Finance advised the term casuals has been defined as staff employed to cover short term peaks in work demand

Source: Department of Treasury and Finance response's to the Committee's 2004-05 Budget Estimates questionnaire, pp.10, 11

Exhibit 14.7 indicates staffing for the State Revenue Office as at 30 June 2004 and 30 June 2005 on a equivalent full time basis and shows a reduction of 2.9 positions is expected over this period.

**Exhibit 14.7: State Revenue Office
Equivalent Full Time Staff**

	June 2004 Actual	June 2005 Estimate
Ongoing staff		
Executive Officer	6.0	7.0
Other (includes VPS Grade 1 to 6)	377.0	381.0
Sub total	383.0	388.0
Casual staff		
Executive Officer	0.0	0.0
Other (includes VPS Grade 1 to 6)	0.0	0.0
Sub total	0.0	0.0
Fixed term staff		
Executive Officer	0.0	0.0
Other (includes VPS Grade 1 to 6)	28.0	20.0
Sub total	28.0	20.0
All staff		
Executive Officer	6	7.0
Other (includes VPS Grade 1 to 6)	405.0	401.0
Total	411.0	408.0

Source: Department of Treasury and Finance's response to the Committee's follow-up questions

Review of Portfolios

14.5 Treasury portfolio

The Treasurer is directly responsible for several outputs delivered by the Department of Treasury and Finance and also shares responsibility for some of these outputs with the Minister for Finance. The Treasurer is responsible for the oversight of the State Revenue Office.³⁸

³⁸ State Revenue Office, About SRO, www.sro.vic.gov.au, accessed 10 October 2004; Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.2-3

14.5.1 2004-05 outlook for the portfolio

Key tasks to be undertaken within the Department of Treasury and Finance that are specific to the responsibilities of the Treasurer during 2004-05 include:

- driving financial issues regarding Commonwealth-State relations;³⁹
- releasing to Parliament Budget Papers for the general government sector and whole of government;⁴⁰
- major policy reviews and refinements, documented case studies on Management Reform Program principles, the National Tax Equivalent Regime and correspondence relating to Federal tax issues;⁴¹
- policy advice on the prudential framework for public sector investments;⁴²
- Expenditure Review Committee (ERC) briefs and the delivery of budget formulation advice through Cabinet and sub committees;⁴³ and
- ensuring taxation compliance for duty on high value land transfers.⁴⁴

The Government announced the following initiatives as part of the 2004-05 Budget relating to the Treasury portfolio:⁴⁵

- the \$5,000 First Home Bonus for first home owners until June 2005 (\$149.3 million over two years concluding 2004-05 of which \$128 million will be incurred in 2004-05);
- establishing a dedicated unit within the State Revenue Office to ensure compliance with stamp duty legislation in transactions involving land rich trusts and companies (\$4 million to 2007-08 of which \$1 million will be incurred in 2004-05);
- establishing the Victorian Competition and Efficiency Commission to provide advice to the Treasurer on the economic impact of legislation, undertake inquiries on matters referred to it and operate Victoria's Competitive Neutrality Unit (\$11.6 million to 2007-08 of which \$2.8 million will be incurred in 2004-05);

³⁹ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.2-3

⁴⁰ *ibid.*

⁴¹ *ibid.*

⁴² *ibid.*

⁴³ *ibid.*

⁴⁴ Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.12

⁴⁵ Budget Paper No. 3, *2004-05 Service Delivery*, pp.260-263, 301-302

- upgrading information and communications technology and implementing an enhanced electronic document management system in the Department of Premier and Cabinet and Department of Treasury and Finance (\$13 million total estimated investment of which \$5.7 million will be incurred in 2004-05); and
- additional funding for the State Revenue Office to purchase land valuations from municipal councils to ensure that land tax assessments are consistent with price movements in property markets (\$18 million total estimated investment of which \$15.7 million will be incurred in 2004-05).

14.5.2 Analysis of the budget

The 2004-05 Budget for the output groups for which the Treasurer is either fully or partly responsible is \$123.5 million. Details of allocations for full or partial output responsibilities are show in exhibit 14.8.

**Exhibit 14.8: Treasurer's Portfolio
Output costs**

Output Group	Outputs under the responsibility of the Treasurer	2004-05 Budget (\$ million)
Revenue Management Services	Revenue Management Services to Government	58.1
Strategic Policy Advice	Strategic Policy and Research	3.3
	Taxation (State Revenue) Policy Advice	1.7
	Inter-Governmental Financial Relations Policy Advice	1.6
	Budget and Financial Policy Advice (a)	11.1
	Financial and Resource Management Framework (a)	8.9
	Economic, Social and Environmental Policy Advice (a)	5.3
	Financial and Risk Management Policy Advice (a)	1.2
Sub total		33.1
Financial Management Services	GBE Performance Monitoring Services	1.6
	Taxation (State Revenue) Monitoring and Forecasting Services	0.7
	Financial Reporting (a)	14.5
Sub total		16.8
Regulatory Services	Business Environment Policy Advice	2.8
Risk Management Services	Commercial and Infrastructure Project Management	10.2
	Prudential Supervision and Financial Asset & Liability Management (a)	2.5
Sub total		12.7
Total (b)		123.5

Notes: (a) Responsibility for output shared with the Minister for Finance

(b) The total outputs for which the Treasurer has joint responsibility is \$43.5 million

Sources: Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.1-2; Budget Paper No. 3, 2004-05 Service Delivery, pp.220-236

14.5.3 Key issues impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified several issues that will impact on the portfolio and its Budget Estimates for 2004-05 and these are detailed below.

(a) Commonwealth-State financial relations

(i) GST revenue

The Committee notes that the budget provides for \$7.08 billion,⁴⁶ equivalent to 24.4 per cent of the Victorian Government's estimated revenue in 2004-05 of \$28.98 billion,⁴⁷ which is derived as GST grants from the Commonwealth.

The Committee notes that the arrangements existing between the Commonwealth and the states for the collection and distribution of GST revenue basically are,⁴⁸

- GST is collected by the Commonwealth through the Australian Taxation Office on behalf of the states and territories;
- GST collected nationally in 2004-05 is estimated at \$34 billion;
- no GST revenue is retained by the Commonwealth;
- GST revenue (and Health Care Grants⁴⁹) are shared between the states and territories on a basis of grants determined by the Commonwealth Grants Commission (CGC) under the principle of horizontal fiscal equalisation (HFE), which seeks to equalise the financial capacity of all states and territories based on their revenue raising capacities and the cost of providing a full range of state services;
- the HFE methodology used by the CGC is reviewed every five years;⁵⁰ and
- the latest review, recently completed in 2004 (the 2004 Report),⁵¹ will be used to distribute grants in 2004-05 and, in normal circumstances, remain in place until 2009.⁵²

⁴⁶ Budget Paper No. 4, *2004-05 Statement of Finances*, p.137

⁴⁷ *ibid.*, p.8

⁴⁸ Budget Paper No. 2, *2004-05 Strategy and Outlook*, pp.73–74

⁴⁹ Commonwealth Grants Commission, media release, *Report on State Revenue Sharing Relativities Review 2004*, 3 March 2004, p.1

⁵⁰ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p. 74

⁵¹ *ibid.*

⁵² Budget Paper No 2. *2003-04 Budget Statement*, p.110

Details of Victoria's share of GST revenue and distribution relative to other states and territories for 2004-05 as set out in the Budget Papers are at exhibit 14.9.

Exhibit 14.9: Estimated GST Revenue and Distribution to states and territories, 2004-05

	Estimated GST raised (a)	GST revenue CGC distribution (b)	Redistribution compared with GST raised	Redistribution compared with GST raised
	(\$ million)	(\$ million)	(\$ million)	(\$ per capita)
NSW	11,885.6	9,549.5	-2,336.1	-343.0
Vic	8,811.8	7,078.6	-1,733.2	-346.0
Qld	6,250.2	7,098.9	848.7	215.1
WA	3108.0	3,494.4	386.4	193.4
SA	2459.1	3,181.5	722.4	477.6
Tas	683.1	1,395.0	711.9	1,454.0
ACT	648.9	657.6	8.7	18.3
NT	273.2	1,664.4	1,391.2	6,919.9
Total	(c) 34,120.0	(c) 34,120.0		

- Notes:
- (a) *The Department of Treasury and Finance has advised that GST raised in each State is based on each State's share of national household final consumption expenditure and other items that attract GST. This data is sourced from ABS Cat. No. 5206.0*
 - (b) *Relativities as recommended by the Commonwealth Grants Commission's Report on State Revenue Sharing Relativities Review 2004*
 - (c) *Reported result adjusted for rounding purposes*

Source: *Budget Paper No. 2, 2004-05 Strategy and Outlook, Amended version, p.77*

The Committee has noted that the electronic version of the Budget Papers differs in several places from the printed version, including page 77 of Budget Paper No. 2. A list of these amendments can be found at the 2004-05 Victorian Budget website, www.budget.vic.gov.au - Amendments. Further comment on this matter is contained at Chapter 4, section 4.1 of this report.

Based on estimates prepared at the time the 2004-05 Budget was formulated, Victoria will generate \$8.5 billion⁵³ in GST in 2004-05. However, based on relativities recommended by the Commonwealth Grants Commission in its *Report on State Revenue Sharing Relativities Review 2004*, Victoria expects to receive back from the Commonwealth only \$7.08 billion in the form of GST grants, effectively subsidising all other states and territories other than New South Wales to around \$1.73 billion.⁵⁴

⁵³ *ibid.*, p.76; Australian Bureau of Statistics, *Australian National Accounts: National Income, Expenditure and Product*, Cat. No. 5206.0, September 2004

⁵⁴ Budget Paper No 2. *2004-05 Strategy and Outlook*, p.76

Furthermore, on an equal per capita basis, the redistribution of GST to other states increased by a further \$287 million between 2003-04 and 2004-05.⁵⁵

The Treasurer advised the Committee that while Victoria supports the principles of equalisation and redistribution to needier states, the present GST distribution system is considered a “*bizarre, outmoded, clapped-out system, and so we want to change it*”.⁵⁶

The Commission in its 2004 Report stated that “*we have made it clear that we are supportive of a far reaching review of equalisation, including its underlying purposes and objectives.*”⁵⁷ Subsequently, at the March 2004 meeting of the Ministerial Council for Commonwealth State Financial Relations, Victoria took the lead in proposing a review of the Commonwealth Grants Commission methodology.⁵⁸ This was agreed to by a majority of states and territories,⁵⁹ and supported by the Commonwealth.⁶⁰

This review will be undertaken by Heads of Treasuries, and will draw on the expertise of the Commission. The review will consider whether the present approach, based on an assessment of virtually all receipts and expenses, is appropriate and necessary; the size and trend of the redistributions; simplification; and data issues. This work program will not, however, be examining the underlying principles of horizontal fiscal equalisation.⁶¹

The Victorian Government considers the terms of reference for the review are too narrow in view of the fundamental flaws in the present arrangements, but considers the review is a first step to reforming Commonwealth-State financial relations.⁶² The Government believes the review will confirm that the current system is overly complex, open to manipulation and produces perverse outcomes, thereby exposing the need for a more comprehensive reform.⁶³

The Committee considers the proposed review of Commonwealth-State financial relations is a positive development that may lead to real financial benefits to the state through a more efficient and equitable sharing of GST tax revenue and other grants determined by the Commonwealth Grants Commission equalisation methodologies. The Committee looks forward with interest to the outcome of the review in addressing inequities in Commonwealth-State financial relationships.

⁵⁵ *ibid.*, p.77

⁵⁶ Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.12

⁵⁷ Commonwealth Grants Commission’s *Report on State Revenue Sharing Relativities Review* March 2004, pp.87–88

⁵⁸ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.79

⁵⁹ Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.12

⁶⁰ The Hon. P. Costello, MP, Treasurer, Commonwealth of Australia, Media release *Meeting of the Ministerial Council for Commonwealth State Financial Relations and outcomes of the Australian Loan council*, 26 March 2004, p.1

⁶¹ *ibid.*, p.2

⁶² Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.79

⁶³ *ibid.*

The Committee notes the comments by the Commonwealth and the Victorian Government in September 2004 over the merits of GST taxing and distribution arrangements for state and territories finances.

The Commonwealth Government claimed that:⁶⁴

- at the inaugural meeting of the Ministerial Council for Commonwealth-state Financial Relations in March 2000, the projected impact of the GST on state and territory finances over the period 2002-03 to 2007-08 was that they would receive windfall gains of \$3.7 billion compared with the previous Commonwealth revenue sharing and state taxing arrangements. Of this gain, Victoria's entitlement was estimated at \$195 million;⁶⁵
- data as at September 2004 indicates that over the same period, the revised cumulative gain to the states and territories compared with previous arrangements is now estimated at \$11.8 billion. Of this gain, Victoria's entitlement is estimated at \$2.1 billion⁶⁶ or an increase of \$1.9 billion compared with initial estimate in March 2000; and
- Victoria is estimated to collect \$32.9 billion⁶⁷ in GST revenue over the period 2004-05 to 2007-08.

The Victorian Government claimed that:⁶⁸

- while GST is finally delivering a modest gain compared with earlier estimates, subsidies by Victoria to other states and territories over the next four years are estimated at more than \$7 billion;
- annual GST subsidies to other states and territories around \$1.8 billion are unsustainable; and
- these arrangements demonstrated the urgency of the review of the method of GST distribution to be undertaken by Treasury officials around Australia.

The Committee considers that informed analysis and discussion of GST revenue issues will be inhibited until both the Commonwealth Government and the Victorian Government have agreed to an updated method of GST distribution which recognises both the state's entitlement to an equitable share of GST tax revenue coupled with a further recognition of the state's obligations to assist other states and territories.

⁶⁴ The Hon. P. Costello, MP, Treasurer, Commonwealth of Australia, Media release *GST revenue windfall to the States and Territories*, 17 September 2004

⁶⁵ *ibid.*, Attachment B

⁶⁶ *ibid.*

⁶⁷ *ibid.*, Attachment A

⁶⁸ The Hon. J. Brumby, MP, Treasurer, Media release, *GST carve up costs Victoria up \$7 billion over four years*, 17 September 2004

(ii) Specific Purpose Payments grants

Specific Purpose Payments grants (SPPs) are Commonwealth grants paid to the states under section 96 of the Commonwealth Constitution and form an important component of state funding for vital community services such as health, education, housing, roads and community services.

The Committee notes SPPs will provide revenues in 2004-05 of about \$5.6 billion⁶⁹ equivalent to 19.3 per cent of the state revenue of \$28.98 billion.⁷⁰ However, the Government calculates this is \$300 million less than if the grants had been distributed on a per capita basis and, as a result, Victoria receives the lowest SPPs per capita of any state or territory.⁷¹ For example, the Department of Treasury and Finance advised that there were shortfalls compared with equal per capita funding of \$36.1 million in regard to the Health Care grant, \$17 million for the Assistance to Government Schools grant and \$11.8 million for the Disability Services grant.⁷²

The Committee notes that SPP arrangements are complex.⁷³ SPPs are distributed with very specific Commonwealth policy objectives and there are over 100 different SPPs. The payments are costly to administer at both Commonwealth and state levels and often blur accountability between levels of Government. Non or partial indexation of SPPs over time can lead to considerable cost shifting from the Commonwealth to the state. The inherent inflexibility in some programs can also hamper efficient delivery of services.

In view of the complexities associated with SPPs, the Committee considers that, as a matter of priority and as part of the discussions between the State Government and the Commonwealth on Commonwealth-State financial relations, SPP funding arrangements should be the subject of an on-going review with the Commonwealth to ensure the best possible equity and transparency in funding provided under this source.

The Committee therefore recommends:

Recommendation 149: The Government review the Specific Purpose Payment grants arrangements and continue discussions with the Commonwealth Government to seek the best possible equity and transparency in funding provided from this source.

⁶⁹ Budget Paper No. 4, *2004-05 Statement of Finances*, p.137

⁷⁰ *ibid.*, p.8

⁷¹ Budget Paper No. 2, *2004-05 Strategy and Outlook*, pp. 80–81

⁷² Department of Treasury and Finance response to the Committee's follow-up questions

⁷³ Budget Paper No. 2, *2004-05 Strategy and Outlook*, pp. 80–81.

(b) Victorian Competition and Efficiency Commission

The Victorian Competition and Efficiency Commission (VCEC) was established on 1 July 2004 as a State Body under the *State Owned Enterprises Act 1992*.⁷⁴

The formation of VCEC was flagged by the Government as part of the April 2004 Economic Statement *Victoria: Leading the Way*,⁷⁵ with the 2004-05 Budget allocating \$11.6 million over four years (\$2.8 million in 2004-05) for its operating costs.⁷⁶

The establishment of VCEC brings together the functions of regulation review (previously the responsibility of the Department of Innovation, Industry and Regional Development) and competitive neutrality assessment (previously carried out by the Competitive Neutrality unit of the Department of Treasury and Finance).⁷⁷ Another function assigned to the Commission is undertaking inquiries into specific matters referred to it by the Government.⁷⁸

The Committee notes that the inquiry function assigned to VCEC allows for a more open basis for consultation with the community on some issues. This can be achieved by specifying particular requirements relating to the conduct of inquiries, which may involve holding public hearings, receiving public submissions and preparing a draft report.⁷⁹

The Committee notes that the VCEC model is similar to that used at the Commonwealth level, where the three functions are carried out by the Productivity Commission.⁸⁰ Alternative models are used in other Australian jurisdictions (see exhibit 14.10), where these functions are usually carried out by more than one agency and have differing governance arrangements to those proposed for the Victorian Competition and Efficiency Commission.

⁷⁴ Victoria Government Gazette, *State Owned Enterprises (State Body – Victorian Competition and Efficiency Commission) Order 2003*, 1 July 2004, pp.1862–1866

⁷⁵ Department of Treasury and Finance, *Victoria: Leading the Way*, Economic Statement April 2004, p.26

⁷⁶ Budget Paper No. 3, *Service Delivery 2004-05*, pp.260, 263

⁷⁷ Victorian Competition and Efficiency Commission, About us, www.vcec.vic.gov.au, accessed 19 October 2004

⁷⁸ Hon. J. Brumby, Treasurer, media release, *Efficiency Commission to make it easier and cheaper to do business in Victoria*, 20 April 2004

⁷⁹ Victoria Government Gazette, *State Owned Enterprises (State Body – Victorian Competition and Efficiency Commission) Order 2003*, 1 July 2004, s.4

⁸⁰ Productivity Commission, *Annual Report 2002-03*, pp.24–25

Exhibit 14.10 Review processes in selected Australian jurisdictions

Jurisdiction	Competitive neutrality	Regulation review	Public Inquiries
Victoria	Victorian Competition and Efficiency Commission	Victorian Competition and Efficiency Commission	Victorian Competition and Efficiency Commission (a) Essential Services Commission (b)
Commonwealth	Productivity Commission	Productivity Commission	Productivity Commission
New South Wales	Independent Pricing and Regulatory Tribunal	Cabinet Office	Independent Pricing and Regulatory Tribunal (c)
Queensland	Queensland Competition Authority	Department of State Development and Innovation (d)	Queensland Competition Authority (e)
Western Australia	Department of Treasury and Finance (f)	Small Business Development Corporation (g)	Economic Regulation Authority (h)
Tasmania	Government Prices Oversight Commission	Department of Treasury and Finance (i)	Government Prices Oversight Commission (j)

- Notes:
- (a) *The Commission may conduct an inquiry into any matter referred to it by the Treasurer under s. 3 of the Order in Council establishing the Commission*
 - (b) *Relates mainly to reviews conducted in respect of regulated industries (s. 10(g) and Part 5 of the Essential Services Commission Act 2001)*
 - (c) *The range of inquiry is limited to any matter with respect to pricing, industry or competition matters under s.12A of the Independent Pricing and Regulatory Tribunal Act 1992 (NSW)*
 - (d) *Carried out within the Business Regulation Reform Unit*
 - (e) *The range of inquiry is limited to any matter relevant to the implementation of competition policy under section 10(e) of the Queensland Competition Authority Act 1997*
 - (f) *Carried out by the Complaints Secretariat*
 - (g) *Small business impact statements only*
 - (h) *The range of inquiry appears to be limited to regulated industries under s. 32A of the Economic Regulation Authority Act 2003 (WA)*
 - (i) *Carried out within the Regulation Review Unit*
 - (j) *May carry out consulting activities under s. 11 of the Government Prices Oversight Act but the range of activities may be limited to activities related to monopoly or near monopoly government service providers*

Exhibit 14.10 – continued

Sources: Victorian Competition and Efficiency Commission, About us, www.vcec.vic.gov.au, accessed 19 October 2004; Essential Services Commission Act 2001, s. 10(g) and Part 5, Productivity Commission, 2002 03 Annual Report, pp.19–26; Independent Pricing and Regulatory Tribunal, What do we do?, www.ipart.nsw.gov.au, accessed 15 September 2004; Department of Premier and Cabinet (NSW), About us, www.cabinet.nsw.gov.au/about.html, accessed 19 October 2004; Queensland Competition Authority, How we can help you, www.qca.org.au, accessed 19 October 2004, Queensland Competition Authority Act 1997 (Qld), s.10(e); Department of State Development and Innovation, Licences and Regulation: Regulation reform, www.sd.qld.gov.au, accessed 19 October 2004; Economic Regulation Authority, Water Division: Inquiry on Water and wastewater pricing, www.era.wa.gov.au, accessed 15 September 2004; Department of Treasury and Finance (WA), Western Australia's Report to the National Competition Council, May 2004, p.83; Small Business Development Corporation, Government Regulation and the Regulation Review Panel, www.sbdc.com.au, accessed 19 October 2004; Government Prices Oversight Commission, Welcome to the Government Prices Oversight Commission, www.gpoc.tas.gov.au, accessed 19 October 2004; Government Prices Oversight Act 1995, s.11; Department of Treasury and Finance (Tasmania), The Legislation Review Program and the Role of the Regulation Review Unit, www.treasury.tas.gov.au, accessed 19 October 2004

The Order-in-Council establishing VCEC states that the Commission must be as efficient as possible in pursuing its undertakings and act in accordance with the following principles:⁸¹

- the provision of analysis and advice that is independent and rigorous; and
- an overarching concern for the well-being of the community as a whole, rather than the interests of particular industries or groups.

The Committee is concerned that there are several provisions contained in the Order-in-Council establishing VCEC that may create tensions in providing advice to the Government that is independent and rigorous. In this regard, the Committee notes that the independence of VCEC is potentially affected by several provisions including:⁸²

- suspension of a Commissioner from Office by the Governor in Council without any specified reasons;
- not requiring public release of inquiry reports or annual reports (the Order states that the Treasurer 'should' publicly release these reports within six months and three months respectively);
- the Treasurer may withdraw or amend a reference at any time before receiving the final report;

⁸¹ *State Owned Enterprises (State Body – Victorian Competition and Efficiency Commission) Order 2003*, 1 July 2004, s.3

⁸² *ibid.*, ss.3, 4 and 7

- requiring the Commission to operate in a framework consistent with the Victorian Government's social, economic and environmental policies and priorities; and
- unable to employ staff directly, with the Commission supported by a secretariat located within the Department of Treasury and Finance.

The Committee believes that the development of formal protocols to guide the relationship between key parties, would assist to establish clear expectations on factors affecting the capacity of VCEC to develop independent and rigorous advice.

The Committee notes that there appears to be some confusion by VCEC on some of the subtle distinctions included in the Order. For example, the VCEC website states that:⁸³

*The Government is **required** to release the final report of an inquiry within six months of the Treasurer receiving that final report from the Commission [emphasis added].*

This is contrasted with the requirements specified in the Order, which state that:⁸⁴

*The Treasurer **should** publicly release the final report within six months of receiving it from the Commission [emphasis added].*

The Committee therefore recommends that:

Recommendation 150: **The Treasurer and the Department of Treasury and Finance develop formal protocols with the Victorian Competition and Efficiency Commission relating to staffing, resourcing and reporting arrangements.**

⁸³ Victorian Competition and Efficiency Commission, The Inquiry process, www.vcec.vic.gov.au, accessed 30 August 2004

⁸⁴ *State Owned Enterprises (State Body – Victorian Competition and Efficiency Commission) Order 2003*, 1 July 2004, s.4(5)

14.6 Finance portfolio

14.6.1 2004-05 outlook for the portfolio

Tasks to be undertaken within the Department of Treasury and Finance that are specific to the responsibility of the Minister for Finance during 2004-05 include:⁸⁵

- the implementation and coordination of the International Financial and Reporting Standards regime for financial reporting at whole of government, departmental and agency level;
- the provision and management of the financial management framework under the Financial Management Act, the regulations and bulletins;
- administration of government leased and owned assets for land, property, accommodation and motor vehicles;
- public sector superannuation policy management; and
- oversight of the Victorian Managed Insurance Authority which provides insurance and risk management services for departments and other participating bodies.

Other key services funded from the Finance portfolio in 2004-05 are:⁸⁶

- quarterly output performance certifications and output evaluation and price reviews;
- provision to the Parliament of quarterly financial reports and compliance assurance reports;
- annual review of the whole of government compliance framework and of the Financial Management Act; and
- oversight of the Essential Services Commission.

There was one initiative relevant to the Finance portfolio announced in the 2004-05 Budget. This relates to the funding of \$1.5 million to provide guidance, education and training across the Victorian public sector on the preparation and presentation of financial information pending changes to the Australian accounting framework arising from the adoption of International Financial Reporting Standards for reporting periods on or after 1 January 2005.⁸⁷

⁸⁵ Mr J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 June 2004, pp.2-3

⁸⁶ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.2-3

⁸⁷ Budget Paper No. 3, 2004-05 Service Delivery, p.301-302

14.6.2 Analysis of the budget

The Minister for Finance has either full or partial responsibility for twelve outputs in five output groups in the Department of Treasury and Finance (see exhibit 14.11). Expenditure in 2004-05 for these outputs is expected to be \$105.7 million equivalent to 56.9 per cent of the total departmental budget allocation of \$185.7 million.⁸⁸

**Exhibit 14.11: Finance Portfolio
Output costs**

Output Group	Outputs under the responsibility of the Minister for Finance	2004-05 Budget (\$ million)
Resource Management Services	Government Accommodation Services	28.1
	Government Land and Property Services	6.1
	Procurement Services	5.0
	Management of Motor Vehicle Lease	2.6
Sub total		41.8
Regulatory Services	Economic Regulatory Services	12.2
Strategic Policy Advice	Budget and Financial Policy Advice (a)	11.1
	Financial and Resource Management Framework (a)	8.9
	Insurance Policy Advice (b)	8.2
	Economic, Social and Environmental Policy Advice (a)	5.3
	Financial and Risk Management Policy Advice (a)	1.2
Sub total		34.7
Financial Management Services	Financial Reporting (a)	14.5
Risk Management Services	Prudential Supervision and Financial Asset & Liability Management (a)	2.5
Total (c)		105.7

Notes: (a) Responsibility for output shared with the Treasurer
 (b) Responsibility for output shared with the Minister for WorkCover
 (c) The total outputs for which the Minister for Finance has joint responsibility is \$51.7 million

Sources: Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.1-2; Budget Paper No. 3, 2004-05 Service Delivery, pp.220-236

⁸⁸ Budget Paper No. 3, *Service Delivery 2004-05*, pp.220-236

14.6.3 Key issues impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified a number of issues that will affect the Finance portfolio and its Budget Estimates for 2004-05.

(a) Public sector financial reporting

The Minister for Finance has responsibility for promoting sound financial management practices in the Victorian Public Sector and providing advice on whole of government reporting. Two significant issues are currently being considered within the portfolio in relation to financial reporting, namely the adoption of international accounting standards for financial reporting purposes and the implementation of the Financial Management Compliance Framework. At the estimates hearing, the Minister briefed the Committee on the progress in implementing these initiatives.⁸⁹

(i) Adoption of international financial reporting standards

The Committee is aware that Australia is committed to the adoption of International Financial Reporting Standards (IFRS) for external financial reporting purposes.⁹⁰ The Australian Accounting Standards Board (AASB), the national body that sets accounting standards in Australia, announced that all Australian reporting entities would adopt accounting standards issued by the International Accounting Standards Board by 2005.⁹¹

The Committee notes that the AASB had issued 40 Australian equivalents of International Financial Reporting Standards by June 2004.⁹² The completed set of Australian standards are known individually as AASB standards and collectively are referred to as Australian International Financial Reporting Pronouncements (AIFRP), and are applicable to all reporting entities for the reporting period commencing 1 January 2005.⁹³

The implications are that:⁹⁴

- for entities with a financial year ending 31 December, AIFRP will apply to financial reports prepared for the period commencing 1 January 2005;

⁸⁹ Mr J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 June 2004, pp. 2–3

⁹⁰ Department of Treasury and Finance, IFRS Bulletin, Edition 1 May 2004, p.1

⁹¹ Department of Treasury and Finance, *Financial Reporting Update*, Edition 5, January 2004, Attachment 2, p.14

⁹² website: aasb.com.au/pronouncements/aasb/standards

⁹³ Department of Treasury and Finance, *Financial Reporting Update*, Edition 5, January 2004, p.3

⁹⁴ *ibid.*

- for entities with a financial year ending 30 June, AIFRP will apply to financial reports for the period commencing 1 July 2005; and
- prior year comparative financial details including the financial reports for both reporting periods will require recasting under the new standards.

The Minister for Finance advised the Committee that the biggest issue for financial management for 2004 is the adoption of the International Financial Reporting Standards.⁹⁵ The Department of Treasury and Finance has responsibility for coordination of the implementation of the new financial reporting framework in the Victorian Public Sector.⁹⁶ About 590 Victorian public sectors agencies⁹⁷ will be affected by the change, and forward estimates of departments for the 2005-06 Budget will be prepared under the new framework.⁹⁸

The Committee notes that action taken in relation to the adoption of AIFRP within the Victorian Public Sector to date consists of:

- the department, through its membership of the Heads of Treasuries Accounting and Reporting Advisory Committee, is contributing significantly to the international harmonisation of Australian Accounting Standards (as well as the GAAP - GFS convergence project);⁹⁹
- amendments to the *Financial Management Act 1994*;¹⁰⁰
- development of a suite of Financial Directions for issue by the Minister for Finance to VPS reporting entities to ensure consistency in the application of the AIFRP, particularly where optional accounting treatments are provided under new accounting standards;¹⁰¹
- creation of an Internet based Financial Management Knowledge Centre to provide information, advice and guidance for VPS entities on AIFRP adoption;¹⁰² and
- provision of funding of \$1.5 million in the 2004-05 Budget for training and development of accounting staff within the public sector on AIFRP adoption.¹⁰³

The Committee understands that it is not presently possible to estimate the financial impact of the AIFRP regime on the key financial policies, operating results or balance sheets of Government or individual agencies. However, significant financial adjustments may arise under the new accounting standards due to changes in the

⁹⁵ Mr J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 June 2004, p.3

⁹⁶ Department of Treasury and Finance, *IFRS Bulletin*, Edition 1, May 2004, p.1

⁹⁷ Auditor-General Victoria, *Annual Report 2002-03*, p.1

⁹⁸ Department of Treasury and Finance, *IFRS Bulletin*, Edition 1, May 2004, p.2

⁹⁹ Department of Treasury and Finance, *Financial Reporting Update* Edition 5 January 2004, p.1

¹⁰⁰ Mr J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 June 2004, pp.2, 3

¹⁰¹ Department of Treasury and Finance, *IFRS Bulletin*, Edition 1, May 2004, p.1

¹⁰² *ibid.*, p.2

¹⁰³ Budget Paper No. 3, *2004-05 Service Delivery*, p.301

manner assets are valued, liabilities are recognised or existing obligations are measured.

The Committee believes that departments should assess the financial impact of adopting the new IFRS financial reporting. This assessment should include an analysis of key changes in financial recognition, measurement and valuation policies and practices and their likely impact on financial performance and financial positions in 2005 and beyond. Departments should also provide for performance reporting in their annual reports of their progress in adopting, managing and implementing the new IFRS financial reporting regime.

Accordingly, the Committee recommends that:

Recommendation 151: **The Department of Treasury and Finance ensure departments provide details in their annual reports on the progress made with adopting the International Financial Reporting Standards and highlighting the major changes and potential impact of the new arrangements.**

(ii) Financial Management Compliance Framework

The Committee sought details of the implementation of the Financial Management Compliance Framework (the Framework) from the Minister for Finance.¹⁰⁴

The Minister for Finance has responsibility for ensuring the Government meets its obligations under the *Financial Management Act 1994* and for issuing Standing Directions of the Minister for Finance (The Directions). The Directions form the basis of financial management for the state and are designed to supplement the *Financial Management Act 1994* by prescribing mandatory elements that must be complied with across the Victorian public sector.¹⁰⁵

The Framework came into effect on 1 July 2003 and is aimed at providing a mechanism through which the Government can effectively monitor and review compliance with the Directions, obtain assurance that VPS entities have appropriate systems to ensure compliance with the Directions, and to aid in discharging the Minister for Finance's accountability to Parliament that public resources are managed in a financially responsible manner.¹⁰⁶ Key features include:¹⁰⁷

¹⁰⁴ Mr J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 June 2004, p.4

¹⁰⁵ Department of Treasury and Finance, *Whole of Government Financial Compliance Management Framework- Explanatory Framework Document*, June 2003, pp 8,10

¹⁰⁶ *ibid.*, pp.2-5

¹⁰⁷ *ibid.*

- it is based on Australian Standard AS3806 *Compliance Programs*, a major benchmark for the development of compliance programs for both public and private sectors;
- allocates primary accountability for compliance to individual VPS agencies, while departments have a portfolio assurance role and the Department of Treasury and Finance has a whole of government assurance role; and
- requires an annual certification of compliance with the Directions by individual agencies.

The Minister for Finance advised the Committee that a range of documents have been released with the launch of the Framework and comprising:¹⁰⁸

- Standing Directions of the Minister for Finance;
- Whole of Government Financial Management Compliance Framework - Explanatory Document;
- Financial Management Compliance Framework - an Overview; and
- Financial Management Compliance Framework - Frequently asked questions.

Additionally, the Department of Treasury and Finance has provided a range of other documentation to assist with compliance with the Standing Directions and the Framework that includes checklists, other tools to assess compliance levels, and compliance newsletters.¹⁰⁹

Documents comprising the Financial Management Compliance Framework package and the additional range of other documentation produced by the department to assist in compliance are available on the department's Financial Management Knowledge Centre website.¹¹⁰ This information includes:¹¹¹

- **The Library:** Contains the Financial Management Package, which consists of the *Financial Management Act 1994*, *Audit Act 1994*, Financial Management Regulations, Standing Directions of the Minister for Finance and Financial Reporting Directions;
- **Compliance:** Contains the Financial Management Compliance Framework including the checklists and tools, frequently asked questions, newsletters and other guidance; and
- **Compliance Monitoring System:** Contains further material to assist entities in completing the annual Financial Management Compliance Certification process.

¹⁰⁸ Minister for Finance's response to the Committee's follow-up questions, p.2

¹⁰⁹ *ibid.*

¹¹⁰ www.fmkc.dtf.vic.gov.au

¹¹¹ *ibid.*

While the Committee believes that it is helpful that all the relevant documents associated with the Financial Management Compliance Framework are deposited in a central electronic register which facilitates easy access and clear identification of these documents, the Committee notes that access to the website is restricted to VPS entities.

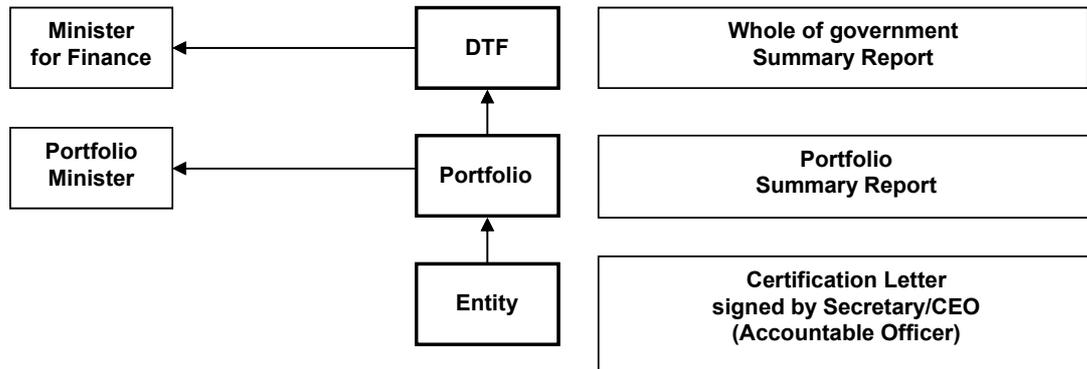
The Committee believes the website should be made publicly available, so that it can be accessed by members of the community with an interest in matters relating to the governance and management of the financial interests of the state.

The Committee recommends that:

Recommendation 152: **The Department of Treasury and Finance provide for the Financial Management Compliance Framework website to be accessible by the public.**

The Framework provides for a three tier certification and reporting hierarchy depicted at exhibit 14.12.

Exhibit 14.12: Financial Management Compliance Framework Certification and Reporting Arrangements



Source: Department of Treasury and Finance, *Whole of Government Financial Management Compliance Framework - Explanatory Framework Document*, June 2003, p.18

Under these arrangements, individual VPS entities (including departments) will address their annual certification letter to the relevant Minister, supported by the relevant department. Each department would then forward a portfolio summary report to the Minister for Finance through the Department of Treasury and Finance.¹¹²

The entity certification will be a statement that the Directions have been observed and will highlight areas of non-compliance with any element of the Directions. The

¹¹² Department of Treasury and Finance, *Whole of Government Compliance Framework – Explanatory Framework Document*, June 2003, p.18

certification letter must be signed by the Secretary/Chief Executive Officer as the Accountable Officer of each agency including departments.¹¹³

Departments will then need to exercise judgment as to which areas of non-compliance are raised in the portfolio summary report to Department of Treasury and Finance.¹¹⁴

The Committee notes that departments may need to take action on non-compliance matters which are of particular relevance to a portfolio and the Department of Treasury and Finance will work with departments to resolve systemic whole of government non-compliance issues.¹¹⁵

Portfolio summary reports should be completed and submitted to the Department of Treasury and Finance by 30 September each year. Agencies' certification letter should be forwarded to the portfolio department by 31 August each year, to enable portfolios to meet the 30 September deadline. Some flexibility will be provided in 2004 given that it is a transitional year.¹¹⁶ The Department of Treasury and Finance has the responsibility to collate and summarise portfolio summary.¹¹⁷

The Committee will monitor the outcomes of the first year of compliance with the Financial Management Compliance Framework giving particular attention to areas of non-compliance, arrears in reporting, validation of compliance certifications and the extent of exemptions, if any, granted from certification and reporting obligations.

The Department of Treasury and Finance has advised that as there is no legislative requirement for the Minister for Finance to publish a report on the results of the operation of the Framework, it is not intended to publish a report on the first year's results on compliance.¹¹⁸

The Committee notes the department's comments but considers that the objectives of the Financial Management Compliance framework initiative and good governance within the Victorian public service would be enhanced by full and comprehensive public reporting on the outcomes of the compliance and certification reporting process.

¹¹³ *ibid.*

¹¹⁴ *ibid.*

¹¹⁵ *ibid.*

¹¹⁶ *ibid.*

¹¹⁷ *ibid.*

¹¹⁸ Department of Treasury and Finance's e-mail response to the Committee's follow-up questions

The Committee therefore recommends:

Recommendation 153: **The Department of Treasury and Finance ensure public reporting on compliance and certification outcomes generated annually under the Financial Compliance Management Framework.**

(b) *Whole of government vehicle leasing arrangements*

The Minister for Finance advised the Committee that new arrangements have been provided for leasing of government vehicles.¹¹⁹ In February 2004,¹²⁰ VicFleet, a unit within the commercial division of the Department of Treasury and Finance, replaced the Commonwealth Bank of Australia (CBA) as the owner and lessor of government vehicles. Previous vehicle leasing arrangements were developed in 1997 following the sale and lease of the Victorian Government fleet to CBA.¹²¹

The new arrangements for vehicle leasing are:

- VicFleet replaces CBA as the owner and operator of future government vehicle acquisitions;
- existing CBA vehicle leases with departments and agencies will continue until lease expiry dates, to avoid penalties for early termination and losses on vehicle disposals, but replacement vehicles will be subsequently leased from VicFleet;
- VicFleet will be funded from loan facilities provided by Treasury Corporation Victoria;
- VicFleet will lease vehicles to departments and agencies under finance lease arrangements;
- a trust account will be set up within VicFleet to account for its leasing vehicle financial operations including vehicle acquisitions and disposals, billing and recovery of lease charges under direct debit arrangements; and
- VicFleet will develop new contracts with vehicle manufactures.

VicFleet has developed a new organisational structure with a focus on risk based vehicle cost and policy management. It provides a whole of government vehicle budget forecasting model to departments and agencies to assist with the management of their vehicle costs. The operations of VicFleet will be oversighted by an Advisory and Governance Committee to monitor and assess whole of government vehicle fleet management and performance.

¹¹⁹ Mr J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 June 2004, p.2

¹²⁰ *ibid.*

¹²¹ Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Outcomes*, 56th Report, April 2004, p.443

The Minister advised the Committee that the new leasing arrangements have resulted in lower leasing rates to lessees saving \$66 per month per car compared to the previous arrangement.¹²² Other associated benefits of the new arrangements are the ability to manage vehicle cost containment and benchmarking of vehicle cost and performance.¹²³

Budgetary impacts arising in 2004-05 from the new vehicle leasing arrangements are:

- the leasing facility outstanding with the CBA is estimated at \$230 million;
- \$180 million will be provided to VicFleet under a loan facility provided by Treasury Corporation Victoria;
- \$150 million in vehicle assets will be transferred to those vehicle user departments and agencies; and
- depreciation and amortization costs associated with the whole of government operation of vehicles will be reassigned to user departments and agencies.

The Committee supports the appropriate transfer of the risks associated with vehicle usage to users of vehicles to encourage transparency, accountability and efficiency of the state's vehicle fleet. Notwithstanding this, the Committee believes that a whole of government assessment of vehicle fleet operations and costs should be provided, and for this purpose, the Department of Treasury and Finance through VicFleet should develop appropriately benchmarked performance measures and targets for vehicle usage by Victorian Government agencies and provide comprehensive annual reporting on outcomes under the new vehicle leasing arrangements.

The Committee therefore recommends:

- Recommendation 154:** **The Department of Treasury and Finance:**
- (a) develop performance indicators to assess the efficiency and effectiveness of whole of government vehicle fleet operations under the revised leasing arrangements; and**
 - (b) include in its annual report details of achievements against those indicators.**

Previous reports of the Committee have referred to the Profit and Loss Adjustment Account, a liability arising to the state from the loss on sale of leased vehicles under the previous leasing arrangement with the CBA, due mainly to the loss of tax

¹²² Mr J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 June 2004, p.14

¹²³ Minister for Finance's response to the Committee's follow-up questions, p.4

advantages on vehicle re-sale through the replacement of wholesale tax on cars with GST.¹²⁴ At 30 June 2003 the liability was \$57.2 million.¹²⁵

The Committee sought details of the balance of the Profit and Loss Adjustment Account at 30 June 2004, action proposed for 2004-05 and whether any other contingent liabilities exist with the CBA.¹²⁶

The Minister advised the Committee that at May 2004 the balance of the account had been reduced to \$37.1 million. Also, policies adopted in the past to manage the liability for losses arising from vehicle disposals would continue in 2004-05. These include more realistic assessment of residual sales values for new vehicles, continued central funding to reduce the account and better vehicle retention policies.

The Profit and Loss Adjustment Account does not include a contingent liability of \$16.3 million payable on the termination of the lease facility in 2006-07. The contingent liability is still being negotiated with the bank.

The Committee notes the action to reduce these liabilities and will review developments and monitor contingent liabilities as part of its review of 2003-04 Budget Outcomes.

(c) Government Superannuation Office - administrative costs and service performance levels

The Committee notes that Government Superannuation Office's (GSO) annual report for 2002-03 reported:

- administrative costs of \$15.5 million;¹²⁷ and
- some areas of poor service delivery to members. For example, up to 30 per cent of telephone calls were answered after 30 seconds, while 30 per cent of correspondence had taken more than 10 days to be responded to.¹²⁸

The Committee's perception is that administrative costs are very high in comparison with other funds given the number of active, non-active and pensioner members.¹²⁹

The Committee questioned the Minister for Finance as to what benchmarking has been done of the performance levels of the Government Superannuation Office for administrative expenses and queried what action the department is planning to take to improve the performance of the Government Superannuation Office.¹³⁰

¹²⁴ Report of the Public Accounts and Estimates Committee, *Report on the 2002-2003 Outcomes*, pp. 443-445

¹²⁵ *ibid.*

¹²⁶ Minister for Finance's response to the Committee's follow-up questions, p.7

¹²⁷ Government Superannuation Office, *Annual Report 2003*, p.40

¹²⁸ *ibid.*, p.3

¹²⁹ Public Accounts and Estimates Committee, transcript of evidence, 15 June 2004 p.12

¹³⁰ *ibid.*

The Minister provided a written response to the Committee that:¹³¹

- the Department of Treasury and Finance monitors GSO's service delivery and costs;
- administrative costs reported in the GSO's financial report for 2003 include costs for secretariat, policy, legal, medical and actuarial services;
- administration costs of GSO reflect the costs associated with managing a defined benefits fund of the complexity of the State Superannuation; and
- performance indicators for service levels have been set following feedback from the members of the Fund.

The Minister further advised that:¹³²

- GSO's costs and services are examined annually¹³³ through an independent, international benchmarking study¹³⁴ involving national and international comparisons with costs and services of similar complex defined benefit funds¹³⁵; and
- the latest study disclosed GSO's costs were 15 per cent lower than the median of its eight Australian peers while providing the second highest level of services.¹³⁶ Compared to international peers, GSO was rated at the median from a total cost perspective while providing above median levels of service.¹³⁷

The Minister advised that a separate study was undertaken in 2003 to examine costs involved in outsourcing the administration of the State Superannuation Fund and it concluded that existing GSO costs were reasonable and that, on balance, there appeared to be a lower degree of risk to the state and members of GSO by retaining the administration of the Fund.¹³⁸ Given the comparative performance of GSO, the Department of Treasury and Finance is satisfied with the existing arrangements for the service delivery and management of the State Superannuation Fund.

The Committee notes the advice provided by the Minister and intends to follow up this matter in its review of 2003-04 Budget Outcomes. The Committee considers that improved disclosure in the GSO's financial report would provide transparency for key cost components representing administrative costs. Additionally, enhanced reporting in the annual report on all benchmarking actions and outcomes for service delivery levels and costs would provide members and other stakeholders with a greater level of

¹³¹ Minister for Finance's response to the Committee's follow up questions, p.3

¹³² *ibid.*

¹³³ Government Superannuation Office, *Annual Report 2003*, p.23

¹³⁴ *ibid.*

¹³⁵ *ibid.*

¹³⁶ *ibid.*

¹³⁷ *ibid.*

¹³⁸ Minister for Finance's response to the Committee's follow-up questions, p.3

comfort concerning the comparative performance of the State Superannuation Fund with other relevant organisations.

The Committee therefore recommends that:

Recommendation 155:

The Government Superannuation Office:

- (a) provide greater disclosure of component items of administrative expenses in its financial reports; and**
- (b) include in its annual report the results of benchmarking studies showing comparative costs and service delivery outcomes of the State Superannuation Fund relative to other similar funds.**

(d) Victorian Managed Insurance Agency

The Committee is aware that the Victorian Managed Insurance Agency's (VMIA) financial performance and financial position has deteriorated between 2000-01 and 2002-03. During this period:¹³⁹

- the annual operating losses averaged \$19 million; and
- net assets declined from \$81.3 million to \$34.3 million.

The Committee notes that a deficit existed in the desired capital position of the Authority at 30 June 2003 of \$68.2 million. This is based on a policy¹⁴⁰ of a net asset position equivalent to 10 per cent of outstanding claims liabilities of \$525 million plus a catastrophe reserve of \$50 million compared with actual net assets at 30 June 2003 of \$34.3 million.¹⁴¹

The Committee understands that VMIA's operating losses have arisen from:¹⁴²

- acceptance of liabilities previously insured by HIH;
- negative investment returns over the years;
- unanticipated growth in pre-1985 public sector workers compensation claims and increases in the actuarial assessment of these claims; and
- the impact of the decision to phase in premium increases over several years.

¹³⁹ Victorian Managed Insurance Authority, *Annual Report, 2001*, pp.18–19, *Annual Report 2002*, pp.16–17, *Annual Report 2003*, pp.18–19

¹⁴⁰ Victorian Managed Insurance Authority, *Annual Report, 2001*, p.6

¹⁴¹ Victorian Managed Insurance Authority, *Annual Report 2003*, pp.18–19

¹⁴² Victorian Managed Insurance Authority, *Annual Report 2001*, p.6, *Annual Report 2002*, p.6, *Annual Report 2003*, pp.6–8.

The Minister advised the Committee that VMIA:¹⁴³

- expects to achieve a positive return on both underwriting and investment results for 2003-04 and will be budgeting for similar results in future years;
- has a more than positive working capital ratio to meet current liabilities; and
- will be provided with additional capital to meet medical indemnity underwriting.

The Committee notes the expected financial improvement of VMIA and will continue to monitor its financial performance and position as part of its review of the 2003-04 Budget Outcomes.

VMIA manages claims on behalf of former SECV entities that have now been privatised and certain other government agencies covered under the cost plus policies. As all such policies have been transacted on a 'pay as you go' basis, the entities covered under this arrangement reimburse VMIA for claims paid plus administration expenses. While no provision for these outstanding claims is included in VMIA's financial report, an indemnity has been given by the Treasurer of Victoria on behalf of the State Government in relation to all liabilities arising from these policies. The net claims paid on these policies amounted to \$99,000 in 2002-03. This amount has been repaid or is payable by the relevant entities under the 'pay-as-you-go' arrangements. Actuarial assessment of the present value of these claims at 30 June 2003 was \$9.29 million for an undiscounted amount of \$16.45 million.¹⁴⁴

VMIA, at the Minister's direction, has provided public liability insurance to a number of non-government entities, being heritage tourist railways and adventure tourist operators. Commercial coverage is being sought for adventure tourist operators while discussions are being held with an overseas underwriter. Claims have been minor.

14.7 WorkCover portfolio

The Minister for WorkCover is responsible for the Transport Accident Commission and the Victorian WorkCover Authority and receives advice and analysis relating to their operations, including advice on the economic and social impacts of insurance issues on business and the community.¹⁴⁵

¹⁴³ Minister for Finance's response to the Committee's follow up questions, p.9

¹⁴⁴ Victorian Managed Insurance Authority, *Annual Report 2003*, p.25

¹⁴⁵ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

14.7.1 2004-05 outlook for the portfolio

The Committee noted that one of the major activities relating to the WorkCover portfolio in 2004-05 will be responding to a review of the *Occupational Health and Safety Act 1985*, which was presented to the Government in March 2004.¹⁴⁶ At the estimates hearing, the Minister indicated that extensive consultation with stakeholders on the Review's recommendations was underway and consultations would conclude shortly, with the intention of announcing the Government's response in the 2004 spring session of Parliament.¹⁴⁷

14.7.2 Analysis of the budget

The Minister for WorkCover has joint responsibility with the Minister for Finance for the Insurance Policy Advice output within the Strategic Policy Advice output group.¹⁴⁸ The 2004-05 budget allocation for the output is \$8.2 million, compared to the anticipated 2003-04 outcome of \$8.8 million.¹⁴⁹

14.7.3 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing identified three issues that will impact upon the portfolio and its Budget Estimates for 2004-05.

(a) Victorian WorkCover Authority – premium reductions

The Committee noted that the April 2004 Economic Statement provides for a 10 per cent reduction in the average WorkCover premium, resulting in savings to Victorian employers of \$180 million per year.¹⁵⁰ The Minister advised the Committee that the decision to reduce premiums from an average rate of 2.22 per cent to 1.998 per cent was made on the advice of the Victorian WorkCover Authority Board, which in turn was based on an independent analysis by the scheme's actuaries.¹⁵¹

The Committee noted that the reduction consolidates Victoria's WorkCover scheme as the provider of the second lowest average premium rate in Australia, and 25 per cent below New South Wales.¹⁵²

¹⁴⁶ C. Maxwell, *Occupational Health and Safety Act Review*, March 2004

¹⁴⁷ Hon. R. Hulls, MP, Minister for WorkCover, transcript of evidence, 16 June 2004, p.3

¹⁴⁸ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, p.2

¹⁴⁹ Budget Paper No. 3, *2004-05 Service Delivery*, p.225

¹⁵⁰ Department of Premier and Cabinet, *Victoria: Leading the Way*, April 2004, p.24

¹⁵¹ Hon. R. Hulls, MP, Minister for WorkCover, transcript of evidence, 16 June 2004, p.2; Minister for WorkCover's response to the Committee's follow-up questions, p.5

¹⁵² Department of Premier and Cabinet, *Victoria: Leading the Way*, April 2004, p.24

The Committee notes that the Victorian WorkCover Authority's financial performance can be assessed in several different ways by including or excluding a range of transactions and changes to assumptions impacting on investment earnings and future claim liabilities (see exhibit 14.13).

**Exhibit 14.13 The Victorian WorkCover Authority's
financial performance 2002-03**

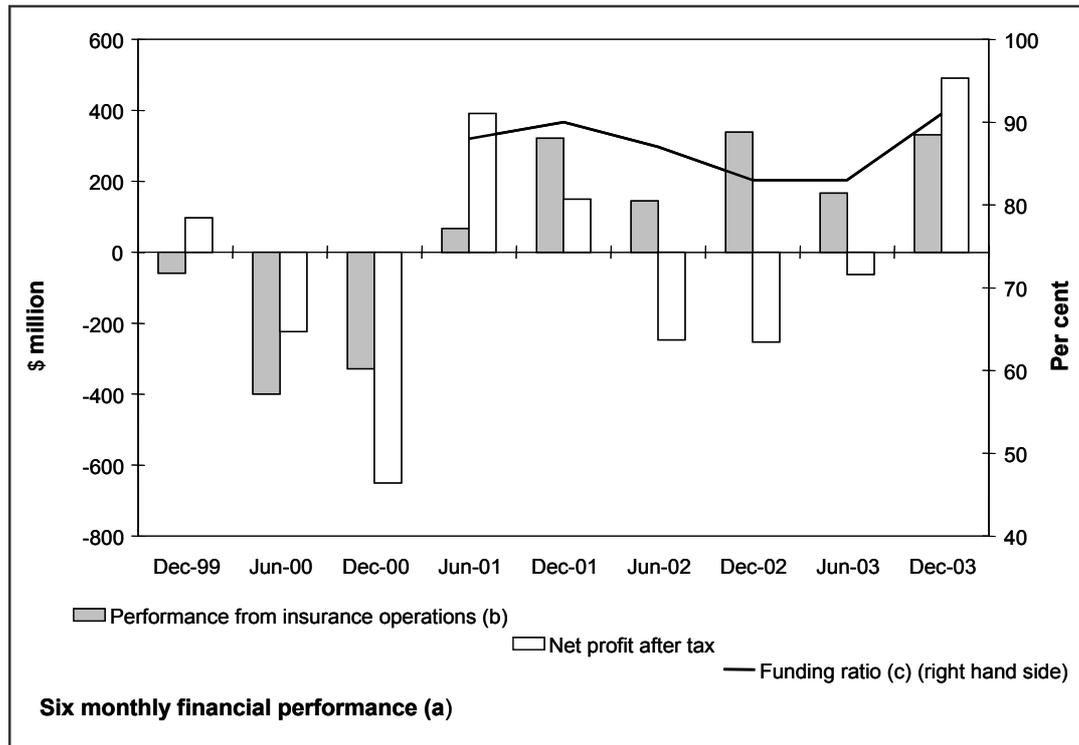
	(\$ million)
Performance from insurance operations (impact on result from internal factors)	504.5
Impact on result from external factors	
Difference between actual returns and long-term expected returns (a)	-437.4
Change in inflation assumptions and discount rates (b)	-383.0
Impact from legislative changes (c)	0.0
Net profit/(loss) (d)	-315.9

- Notes:
- (a) *Continued adverse international equity market conditions in 2002-03 produced an investment return well below long-term expectations*
 - (b) *Impact of unfavourable changes in economic assumptions (ie: reduction in discount rates due to falling interest rates) used to determine claims liability*
 - (c) *Relates to legislative changes external to the governing Acts of the Victorian WorkCover Authority*
 - (d) *Includes all revenue and expense items which must be taken into account under Australian accounting standards. This is the 'headline' profit/loss result as reported in the audited statement of financial performance for 2002-03*

Source: Victorian WorkCover Authority, Annual Report 2002-03, p.32

The Minister advised the Committee that since June 2003, the Victorian WorkCover Authority had reported a sound financial result for the half year ended December 2003, which was its sixth consecutive half-yearly positive performance from insurance operations (see exhibit 14.14).¹⁵³

¹⁵³ Hon. R. Hulls, MP, Minister for WorkCover, transcript of evidence, 16 June 2004, p.2; Hon. R. Hulls, MP, Minister for WorkCover, transcript of evidence, 16 June 2004, p.2

Exhibit 14.14: Victorian WorkCover Authority

- Notes:
- (a) Six monthly financial performance is not subject to audit by the Auditor-General
 - (b) Performance from insurance operations excludes the impact of external factors on the financial results including short-term volatility in the investment market, movements in key economic factors such as interest rates, and legislative changes external to WorkCover
 - (c) The funding ratio is calculated as net assets divided by net liabilities multiplied by 100

Sources: Victorian WorkCover Authority, media release, *WorkCover's record sixth successive positive insurance result boosts net profit*, 27 February 2004; Presentation by the Minister for WorkCover to the Public Accounts and Estimates Committee, 16 June 2004, p.2

The Committee was further advised that independent actuarial advice provided to the Victorian WorkCover Authority considered a 10 per cent reduction in the average premium rate was sustainable, with the Minister indicating that good management and successive half yearly positive operational results in the last few years delivered an opportunity for employers to share in the benefit of a better scheme through a reduction in the average premium rate.¹⁵⁴

The Minister advised the Committee that in the valuation for the WorkCover scheme as at 31 December 2003, the scheme's external actuary projected that full funding will be reached by December 2005.¹⁵⁵ With the 10 per cent reduction in the average

¹⁵⁴ Hon. R. Hulls, MP, Minister for WorkCover's response to the Committee's follow-up questions, p.5

¹⁵⁵ *ibid.*, p.6

premium rate, the scheme's actuary projected that full funding would now be achieved by June 2006.¹⁵⁶

In light of these financial results, the Committee sought details from the Minister for WorkCover on the reductions in premiums for 2004-05 and the extent to which premium revenue is reliant upon increased premiums payable by employers with a claims history.

The Minister advised that an independent review of the previous premium scheme identified deficiencies including lack of transparency in pricing of premiums and weak incentives for employers to improve OHS and work return outcomes.¹⁵⁷ Responding to this review, the Victorian WorkCover Authority gave a commitment to make the premium system fairer by rewarding employers who improve occupational health and safety performance.¹⁵⁸ The Minister indicated that the new premium model strengthens the link between an employer's health and safety claims experience and actual premium paid.¹⁵⁹

The Committee understands that the 10 per cent reduction in the average premium rate will be applied in the following manner:¹⁶⁰

- of 518 industry classifications, 18 high risk classifications will experience an industry rate increase, while the remaining 500 industries will experience industry premium rate decreases;
- increases or decreases in industry rates will depend on health and safety performance of an industry as a whole; and
- regardless of industry classification, employers who have annual remuneration below \$200,000 will receive a 10 per cent reduction on their own premium rates.

The Committee is supportive of efforts to provide incentives to employers to improve occupational health and safety performance by linking premiums with claims experience. The Committee believes that these benefits need to be clearly communicated to employers if desired behavioural changes are to be achieved.

(b) Farm safety

At the estimates hearing, the Minister advised the Committee that the total number of workplace fatalities in Victoria during 2003 was 27, which was a reduction of 12 compared to 1999.¹⁶¹ The Committee noted that as at 3 September 2004, the total

¹⁵⁶ *ibid.*

¹⁵⁷ *ibid.*, pp.5, 6

¹⁵⁸ *ibid.*

¹⁵⁹ *ibid.*

¹⁶⁰ *ibid.*

¹⁶¹ Hon. R. Hulls, MP, Minister for WorkCover, transcript of evidence, 16 June 2004, p.2

number of workplace fatalities in Victoria since the start of the year had reached 27, equivalent to the total number of fatalities recorded for the whole of 2003.¹⁶²

The Committee noted that farm related fatalities represent a proportionately large share of workplace fatalities in Victoria, with the Minister advising that a total of 126 farm related fatalities were reported to WorkCover between 1993 and 2002.¹⁶³ This constituted more than one-third of all reported deaths despite the industry having only approximately five per cent of the State's workforce.¹⁶⁴

The Committee noted that farm related deaths can be reported using a number of different criteria, with reported farm related fatalities sometimes defined on an industry basis (for example, agriculture and other related operations such as forestry and transport), sometimes defined to include the deaths of children in work related farm accidents and sometimes restricted to employees only (ie: excluding self-employed workers).¹⁶⁵

The Committee was informed that as at 30 June 2004, there had been 12 fatalities in the agriculture sector in 2003-04.¹⁶⁶ The Minister advised that of these deaths:¹⁶⁷

- seven were owners (or principals);
- three were employees (one of these occurred in the logging industry);
- one was a friend of the owner; and
- one was a contractor.

The Minister explained that in response to the number of fatalities in the agricultural sector, WorkSafe (a division of the Victorian WorkCover Authority) had intensified efforts and implemented an integrated strategy involving key farming sector organisations.¹⁶⁸ This included conducting high profile targeted media education campaigns such as tractor safety and, more recently, local country football clubs have been used to help improve attitudes and promote the safety message in farming communities.¹⁶⁹

The Committee noted that WorkSafe's farm safety initiatives during 2003-04 were guided by a business plan covering the manufacturing and agriculture industries.¹⁷⁰ This plan included a range of specific tasks to be undertaken during the year as well as

¹⁶² Victorian WorkCover Authority, *Work-related deaths: Total of reported fatalities by year*, www.workcover.vic.gov.au/vwa/home.nsf/pages/so_fatalities_total, accessed 30 September 2004

¹⁶³ Hon. R. Hulls, MP, Minister for WorkCover, transcript of evidence, 16 June 2004, p.5

¹⁶⁴ *ibid.*

¹⁶⁵ Department of Human Services, submission to the Rural and Regional Services and Development Committee's inquiry into the cause of fatality and injury on Victorian farms, January 2004

¹⁶⁶ Hon. R. Hulls, MP, Minister for WorkCover's response to the Committee's follow-up questions, p.1

¹⁶⁷ *ibid.*

¹⁶⁸ Hon. R. Hulls, MP, Minister for WorkCover, transcript of evidence, 16 June 2004, p.5

¹⁶⁹ *ibid.*

¹⁷⁰ WorkSafe Victoria, *Manufacturing and Agriculture Industries Program: Business Plan 2003-04*, October 2003

accompanying performance measures to assess progress in implementing major tasks.¹⁷¹ The Committee noted that many of these performance measures were based on establishing whether activities would be undertaken, with only one measure – the number of fatalities and claims frequency rate in the agricultural sector – assessing the outcome of these activities.¹⁷² There were no performance measures included to assess the effectiveness of educational or information activities.

WorkSafe's progress report against its 2003-04 business plan was published in July 2004 and revealed that WorkSafe had met many of the performance measures set for 2003-04 including:¹⁷³

- 1,088 field visits conducted under the hazardous substances project (target – 800 field visits);
- 60 roll over protection system compliance visits conducted with 19 notices issued (no numeric target was specified, with the target expressed as 'field visits conducted to maintain vigilance on compliance'); and
- field projects for farming being carried out in accordance with project plans.

The Committee noted that although the general outcomes were reported for the combined manufacturing and agricultural industry sectors for claims frequency rate and fatalities, there was no information relating specifically to the agriculture sector.¹⁷⁴ Further, there was no outcome reported for the performance measure *Number of field visits to raise awareness on the prevention of falls from heights regulations* (target – 200 field visits).¹⁷⁵

While the Committee welcomes the early release of WorkSafe's progress against its business plan for 2003-04, the Committee believes that the range of performance measures used to assess specific efforts to improve farm safety do not focus sufficiently on outcomes. The Committee believes that WorkSafe needs to revise its business planning arrangements to ensure that appropriate performance measures are developed to assess the effectiveness with which information campaigns and educational activities are being delivered, as well as developing separate performance measures on farm related fatalities and injury outcomes including those relating to self-employed workers and their children.

¹⁷¹ *ibid.*, p.11

¹⁷² *ibid.*

¹⁷³ WorkSafe Victoria, *Manufacturing and Agriculture Industries Program: Business Plan 2003-04 Full Year Progress Report*, July 2004, p.8

¹⁷⁴ *ibid.*, p.3

¹⁷⁵ *ibid.*, p.8

The Committee therefore recommends that:

Recommendation 156: **WorkSafe Victoria revise its business planning framework relating to the farm safety strategies to ensure the framework includes performance measures that reflect the effectiveness of educational, informational and compliance activities undertaken to improve farm safety outcomes as well as clearly defined injury and fatality measures.**

The Committee is aware that another Parliamentary Committee – the Rural and Regional Services and Development Committee – is currently undertaking an inquiry into farm safety, which is due to report by 30 June 2005.¹⁷⁶ The Committee awaits this report with interest.

(c) AFL sponsorship

The Committee noted that the Transport Accident Commission is currently a major sponsor of two Australian Football League (AFL) clubs, with the sponsorships part of a multi-pronged accident prevention strategy used to help activate the ‘Drink, drive, bloody idiot’ and ‘Wipe off 5’ speed messages respectively.¹⁷⁷ These contracts both expired at the conclusion of the 2004 season.¹⁷⁸

At the estimates hearings, the Committee sought information from the Minister on the value of these sponsorship arrangements and some of the criteria used to assess the effectiveness of the sponsorship.¹⁷⁹ The Minister took on notice the following question relating to the level of sponsorship for each AFL club from the Committee:¹⁸⁰

Please advise the level of sponsorship for each AFL football club which was provided by WorkCover and the Transport Accident Commission in 2003-04. What criteria is used to assess the effectiveness of the sponsorship? Is it intended that the two authorities will continue to sponsor AFL football teams?

¹⁷⁶ Rural and Regional Services and Development Committee, *Cause of fatality and injury on Victorian farms*, Contents, www.parliament.vic.gov.au, accessed 31 August 2004; Victoria Government Gazette, G36, 2 September 2004, p.2466

¹⁷⁷ Minister for WorkCover’s response to the Committee’s follow-up questions, p.1

¹⁷⁸ *ibid.*

¹⁷⁹ Hon. B. Forwood, MLC, Deputy Chair, Public Accounts and Estimates Committee, transcript of evidence, 16 June 2004, p.6

¹⁸⁰ Public Accounts and Estimates Committee’s follow-up questions for the Minister for WorkCover, Attachment 1

The Minister advised the Committee that sponsorships (and potential sponsorships) are evaluated against a series of criteria including:¹⁸¹

- message exposure among targeted at risk population groups;
- message quality;
- community activation; and
- message recognition.

In relation to the value of these sponsorship arrangements, the Minister advised that:¹⁸²

Consistent with the established Transport Accident Commission practice and given the highly competitive nature of the football sponsorship market, details of the sponsorship contracts remain commercial-in-confidence.

The Committee is disappointed that the Minister did not provide the information on the value of sponsorship arrangements. It was unclear to the Committee, whether the response provided by the Minister implies that restrictions are imposed by the sponsorship contract on revealing this information, or whether this information was considered by the Transport Accident Commission to be commercial in confidence although there is no agreement with sponsors relating to the release of this information.

While the Committee appreciates that there may be significant benefits through the use of sponsorship of AFL teams to deliver road safety messages to the community, it believes that expenditure by publicly-owned and operated entities should be subject to the same scrutiny as other areas of Government and there should be no barrier to disclosing the value of the sponsorship arrangements to the Parliament. Without the release of such information, it is difficult for the Committee and the community to determine whether the benefits associated with the current sponsorship arrangements exceed the current costs and also whether there may be other opportunities that yield greater benefits than those currently provided under existing sponsorship arrangements.

Where existing arrangements preclude the disclosure of this information, the Committee believes that any new sponsorship contracts entered into by the Transport Accident Commission or the Victorian WorkCover Authority should not limit the release of this information to this Committee.

The Committee therefore recommends that:

¹⁸¹ Minister for WorkCover's response to the Committee's follow-up questions, p.2

¹⁸² *ibid.*

Recommendation 157: **The Department of Treasury and Finance, the Transport Accident Commission and the Victorian WorkCover Authority ensure that future AFL sponsorship arrangements do not limit their capacity to publicly disclose the cost of these arrangements.**

The Committee will seek to clarify the confidential nature of the Transport Accident Commission's sponsorship arrangements as part of its Report on the 2003-2004 Budget Outcomes.

