

CHAPTER 1: INTRODUCTION

1.1 Background

On 1 May 2007, the government introduced two appropriation bills: the *Appropriation (2007/2008) Bill* and the *Appropriation (Parliament 2007/2008) Bill*, into Parliament. These bills, which were subsequently passed through the Parliament, enable the government and the Parliament to deliver planned services and embark on new asset investments during 2007-08.

The appropriation bills sought parliamentary authority to draw an amount of \$28.5 billion from the Consolidated Fund in 2007-08 for government purposes and \$92.1 million for the funding of Parliament's activities. These amounts include funding to meet operating expenditure involved in the provision of outputs (new and ongoing initiatives) and capital additions to the net asset base.

Section 40 of the *Financial Management Act 1994* requires the government to submit to Parliament, along with the appropriation bills, the budget estimates for the forthcoming financial year. The budget estimates include, for the relevant financial year, particulars of:

- goods and services each government department will provide or produce;
- amounts available, or to be available, to each department;
- the estimated amount of the receipts and receivables for each department; and
- the expected financial requirements of Parliament.

The budget estimates also deal with the application of funds that do not require annual parliamentary authority such as:

- special appropriations where there is continuing authority embodied in specific legislation (\$1.8 billion);¹
- agency revenue credited to appropriations (\$2.2 billion);² and
- prior year appropriations carried over to the budget year (\$535.1 million).³

The 2007-08 Budget Estimates identify that the government expects total income from operating transactions of \$34.3 billion and total expenditure from operating transactions of \$34 billion.⁴ Total expenditure from operating transactions is met from the output funding component of the appropriation acts and funds derived from special appropriations, agency revenue and unspent prior year appropriations carried forward.

In addition, net annual infrastructure investments are expected to average \$3.3 billion over each of the four years to 2010-11.⁵ This capital expenditure is met from the cash surplus generated from operating activities (after adding back non-cash items such as depreciation), proceeds from asset sales, the unallocated capital provision for future allocation and increases to net debt.

¹ Budget Paper No.4, *Statement of Finances*, pp.173–176

² *ibid.*, pp.177–179

³ *ibid.*

⁴ *ibid.*, p.9

⁵ Budget Paper No.2, *Strategy and Outlook*, p.5

1.2 Process followed by the Public Accounts and Estimates Committee for its review of the 2007-08 Budget Estimates

The Committee's analysis of the budget estimates aims to:

- facilitate a greater understanding of the budget estimates;
- constructively contribute to the quality and presentation of the budget information; and
- enable more effective monitoring of the performance of departments and agencies.

The inquiry into the budget estimates does not involve an analysis to verify policy statements made by Ministers or the Treasurer or if information prepared by the Department of Treasury and Finance contained in the budget papers is well founded. Rather, the inquiry focuses on transparency and clarity of reporting.

The principal intention of the Committee, in presenting the earlier reports to Parliament on the 2007-08 Budget Estimates (Parts One and Two), was to assist Members of Parliament in their consideration of the appropriation bills and, in turn, to enrich the Parliament's debate on the bills.

As foreshadowed earlier, following the tabling of the *Report on the 2007-08 Budget Estimates – Part One* and the *Report on the 2007-08 Budget Estimates – Part Two*; Part Three of the report contains information relating to:

- analysis, key findings and recommendations pertaining to the 2007-08 Budget Estimates;
- responses to the budget estimates questionnaire that were received subsequent to the tabling of Part Two of the report; and
- responses received to questions taken on notice and unasked questions emanating from the hearings.

1.2.1 Analysis, key findings and recommendations

Section A outlines in summary form key aspects of the budget as well as providing for the first time an in depth analysis of key fiscal parameters, including contingency items, planned efficiency initiatives, revenue foregone and funds carried forward.

Drawing on the material received in response to the 2007-08 Budget Estimates questionnaire and various matters raised through the estimates hearing process, the analysis and issues contained in this report are presented according to a series of themes that have relevance to the examination of the budget estimates. For the first time, key fiscal and economic matters such as productivity, economic reform and staffing are the subject of extensive analysis in a PAEC estimates report. These key themes are highlighted within Section B.

A new feature this year is an evaluation in Section C of the nexus between various issues raised by the Committee at the estimates hearings and the government's *Growing Victoria Together* (GVT) policy vision and goals. This analysis has been incorporated into the report to complete the trilogy of aligning the *Growing Victoria Together* policy vision to the budget estimates reporting format, the Auditor-General's Annual Plan and the Committee's reporting requirements. Under each of the GVT policies, the Committee has subjected several key issues to in-depth analysis leading to substantive recommendations.

Section D of the report includes an assessment by the Committee of the quality of material provided by Ministers and departments in response to questions raised by the Committee.

1.2.2 Recent machinery of government changes

Following the resignation of the Hon. S Bracks MP as Premier of Victoria on 27 July 2007,⁶ the incoming Premier, Hon. J Brumby MP released on 2 August 2007 details of a new Cabinet and two new departments. As these changes occurred after the estimates hearings process had been completed and the tabling of the *Report on the 2007-08 Budget Estimates – Part One* and the tabling of the *Report on the 2007-08 Budget Estimates – Part Two*, references in this report to Ministers and departments reflect the situation at the time of conducting the budget estimates inquiry. The recent administrative changes are set out below:⁷

- a new Department of Planning and Community Development to replace the Department for Victorian Communities, which will include the divisions and authorities that reported to the Minister for Planning within the Department of Sustainability and Environment; and
- the Office of Children to go into the Department of Education to create the Department of Education and Early Childhood Development.

1.2.3 Acknowledgment

The Committee is grateful to Ministers, departmental Secretaries and their staff for their assistance at the budget estimates hearings and the written material prepared in response to the Committee's formal lines of inquiry.

The cost of this inquiry was approximately:

- Parts One and Two \$88,500; and
- Part Three \$96,000.

⁶ Hon. S Bracks MP, Premier, Office of the Premier, *Statement from Premier Steve Bracks*, media release, 27 July 2007

⁷ Hon. J Brumby MP, Premier, *Premier announces new cabinet*, media release, 2 August 2007