

SECTION B: KEY THEMES

CHAPTER 3: NATIONAL REFORM AGENDA

Key findings of the Committee:

- 3.1 The Committee noted that various actions designed to advance the implementation of National Reform Agenda (NRA) reforms were underway across departments, including ones that sought to take a long term perspective for the next generation of Australians.
- 3.2 Based on information provided by departments, the Department of Education, the Department of Human Services, the Department of Infrastructure, the Department of Innovation, Industry and Regional Development, the Department of Justice and the Department for Victorian Communities were the most prominent agencies involved in the NRA under the coordination activities of the Department of Premier and Cabinet.
- 3.3 The Committee noted that Victoria's response to date has focused on the human capital stream of NRA reforms, in line with the Productivity Commission's expectation that this stream will yield the majority of benefits. The Committee also regards continuous action on the other streams – regulatory reform and competition – as essential elements for success under the National Reform Agenda.
- 3.4 With the NRA having the potential to increase GDP by up to 11 per cent after 25 years (or approximately \$100 billion a year in terms of today's economy), the Committee will continue to seek information regarding progress made in implementing key NRA programs and projects against milestones and the costs and benefits against estimates.
- 3.5 In continuing to aspire to achieve reforms in the national interest, the Committee noted the level of funding provided by the Victorian Government, particularly with regard to NRA initiatives targeted at the human capital stream such as programs aimed at improving literacy and numeracy outcomes and early childhood outcomes.

3.1 Background

This section of the report builds on the information contained in last year's budget estimates report by commenting on the progress achieved by departments in implementing the National Reform Agenda (NRA). It also offers recommendations for ways in which the management and accountability of the NRA could be enhanced over the ensuing period.

Endorsed by the Council of Australian Governments (COAG) in February 2006, the NRA focuses on reforms in human capital, better regulation and competition to raise living standards in Australia through improving productivity and workforce participation over the next decade and beyond.⁵⁷ Commentary by the Public Accounts and Estimates Committee (the Committee) on the impact that spending by departments, particularly on new initiatives, will have on productivity is contained in a later chapter of this report. The National Reform Agenda at a glance is shown in table 3.1.

⁵⁷ Budget Paper No.2, 2007-08 *Strategy and Outlook*, p.94

Table 3.1: The National Reform Agenda at a glance

The National Reform Agenda comprises three streams – improvements to human capital, regulatory reform and competition.

- The *human capital* stream covers three areas – health, education and training, and work incentives.
 - The health element comprises two distinct parts. The first seeks to improve the delivery of health services and to review Commonwealth-State Specific Purpose Payments that significantly affect the health system, prior to their renegotiation, in order to identify any elements that, if changed, could contribute to better health outcomes. The second is aimed at improving workforce participation and productivity by reducing the incidence of illness, injury and disability and chronic disease in the population.
 - The education and training element seeks to equip more people with the skills needed to increase workforce participation and productivity. Four areas have been targeted: early childhood development; literacy and numeracy; transitions from school to further education or work; and adult learning.
 - The workforce incentives element is designed to increase workforce participation by improving incentives for those groups with the greatest potential to raise their participation rates: people on welfare, the mature aged and women.
- The *regulatory reform* stream comprises two distinct sets of initiatives. The first is designed to promote best practice regulation making and review. The second focuses on reducing the regulatory burden in ‘hot spots’⁵⁸ where overlapping and inconsistent regulatory regimes across state and territory jurisdictions are impeding economic activity.
- The *competition* stream involves reforms in the areas of energy, transport, infrastructure and planning, and climate change. These reforms have the potential to significantly increase Australia’s international competitiveness and deliver substantial benefits to the Australian economy.

Sources: Productivity Commission, *Potential Benefits of the National Reform Agenda*, February 2007, p.xxx; Council of Australian Governments, *Communique*, 10 February 2006, p.3, and www.dtf.vic.gov.au, accessed 4 September 2007

In examining the potential economic benefits to be derived from a NRA, modelling by the Productivity Commission suggest that the NRA could boost Gross Domestic Product (GDP) by up to 11 per cent after 25 years, equating to approximately \$100 billion a year in terms of today’s economy.⁵⁹ With possible longer term economic impacts facing Victoria emanating from conditions of an ageing population and slowing productivity growth; a changing global environment that brings both greater competition and trade opportunities; and emerging environmental challenges (particularly climate change),⁶⁰ the Committee will be interested in pursuing on a continuous basis, information from departments about the progress made and outcomes delivered from the various projects that fall under the umbrella of the NRA in Victoria.

⁵⁸ COAG has agreed to target 10 regulatory ‘hot spots’ namely rail safety; occupational health and safety; trade measurement; chemicals and plastics; development assistance arrangements; building regulation; business registration; environmental assessment and approvals processes; personal property securities; and product safety. Productivity Commission, *Potential Benefits of the National Reform Agenda*, February 2007, p.20

⁵⁹ Budget Paper No.2, *2007-08 Strategy and Outlook*, p.94

⁶⁰ *ibid.*, p.91

3.2 Responding to the national reform agenda

Budget Paper No.2 *2007-08 Strategy and Outlook* provides details of how the government has, and will continue to respond to the NRA.⁶¹ According to the government, *'some progress has been achieved over the past 12 months through discussions in COAG towards a NRA'*. However, importantly, the Victorian Government warned that *'more needs to be done to safeguard the living standards of Australians'*.⁶²

As the Committee was interested in how individual departments were responding to the National Reform Agenda, all departments were asked to provide details of their National Reform Agenda activities, implications for departmental services and the level of state funding allocated in 2007-08 for NRA initiatives in their response to the Committee's 2007-08 Budget Estimates questionnaire.

While most departments stated in their responses to the 2006-07 Budget Estimates questionnaire that they were participating in the NRA, the Committee noted that a year later, further progress had been made across departments to various degrees. As was the case last year, the Committee expected some variation in participation, given the current status of the NRA, the ongoing development of specific reform proposals and the varying relevance of the NRA to portfolio responsibilities of different departments.

Departmental participation primarily involved representation on various working groups and committees, working with other Victorian Government departments, and developing policy initiatives and plans that meet the objectives of the NRA. Based on the responses provided by departments, the Department of Education, the Department of Human Services, the Department of Infrastructure, the Department of Innovation, Industry and Regional Development, the Department of Justice and the Department for Victorian Communities have been the most prominent departments involved in the NRA, under the coordination of the Department of Premier and Cabinet.

Section 3.4 in this report, describes a consolidated listing of the way in which departments have responded to the NRA since its inception. The Committee noted that the Department of Premier and Cabinet established a National Reform Secretariat to work on COAG activities and the National Reform Agenda and that capacity has been achieved through reprioritisation of resources.

In terms of maximising Victoria's human capital through enhancing the knowledge and skills of Victoria's workforce and the provision of a healthy workforce, key initiatives outlined by departments involved the development of plans/measures to improve literacy and numeracy outcomes as well as vocational education and training, and to address the growing impact of obesity and type 2 diabetes. Consistent with the finding of the Productivity Commission that the majority of benefits of the NRA will arise from the human capital stream, Victoria's response to date has largely focused on this component of the reform agenda.

With regard to regulatory reform, examples cited by departments included the review of ports regulations, the identification of areas where a review of business licensing should focus, the review of the licensing arrangements for public lotteries and the release by the government of the Reducing the Regulatory Burden initiative to reduce the administrative and compliance burden on business.

In the context of the competition stream, examples of initiatives included Victoria's participation in work being undertaken or completed in relation to COAG's energy market reforms, a national review of urban congestion, development of a five yearly infrastructure report that involved forecasting infrastructure demand and included the development of performance indicators across various sectors in the energy and transport industries.

⁶¹ *ibid.*, pp.91-103

⁶² *ibid.*, p.91

In responding to climate change, the Department of Sustainability and Environment advised the Committee that in February 2006, COAG agreed to adopt a new national Climate Change Plan of Action and to establish a high level inter-jurisdictional Climate Change Group to oversee implementation of the Plan's recommendations. COAG decided that the Climate Change Group would prepare a National Adaptation Framework for its review. The Committee will be very interested in monitoring developments in this area and their relevance to Victoria.

The Committee noted that the Office of Climate Change was established in the Department of Premier and Cabinet in early 2007⁶³ with six to seven core staff and a funding allocation of \$3.2 million over three years⁶⁴. The Office will be responsible for whole of government policy and strategy, focussing on longer term issues and the economic, environmental and social impacts of climate change. The Office will also lead inter-jurisdictional policy development.⁶⁵

Section 3.5 in this report sets out a summary of the work undertaken in developing the first tranche of detailed reform policies between July 2006 and April 2007.

The Committee noted the various responses underway across departments that are designed to advance the implementation of NRA reforms, recognising that *'the NRA is about all governments taking a long term perspective for the next generation of Australians'*.⁶⁶

The Committee is aware, however, of the importance of balancing regulatory reform with the need to protect the public interest and, in this regard, acknowledges the position taken by the Victorian Government on gambling where regulatory controls are considered to be in the public interest.

The Committee was pleased to find that according to the Business Council of Australia's red tape scorecard, which analysed the red tape reform progress of each state and territory government, only Victoria had consistently achieved 'good' ratings in the way it had implemented reforms of its regulation making regime.⁶⁷ The four benchmarks used in this exercise comprised:⁶⁸

- **principles of regulation making** – which included the need to consider alternatives to regulation;
- **accountability** – which included the need for regulators to be held to account for their performance;
- **transparency** – which included the need for those potentially affected to have input into the process; and
- **review** – which included the need for regulations to be subject to review to ensure they remain relevant and efficient over time.

In fact, according to the Council, states like Queensland and Western Australia have performed poorly and could benefit from examining Victorian models (for example, the creation of a Victorian Competition and Efficiency Commission which assesses the regulators' performance and is transparent in its reporting on the red tape performance of the state)⁶⁹.

⁶³ www.dpc.vic.gov.au, accessed 4 September 2007

⁶⁴ Department of Premier and Cabinet, response to the Committee's 2007-08 Budget Estimates questionnaire, received 2 May 2007, p.3

⁶⁵ www.dpc.vic.gov.au, accessed 4 September 2007

⁶⁶ www.dpc.vic.gov.au, accessed 18 July 2007

⁶⁷ Business Council of Australia, *Business still tied up by state and territory red tape*, media release, 27 May 2007

⁶⁸ Business Council of Australia: *A scorecard of state red tape reform*, May 2007, p.2

⁶⁹ ABC Online, *Victoria sets the benchmark in red tape efficiency: BCA*, 28 May 2007

The Committee acknowledges the following statement made by the Victorian Government in discussing Commonwealth-State financial relations in the context of the National Reform Agenda:⁷⁰

Victoria believes in a cooperative approach and is seeking to continue working with the Commonwealth and other states and territories (the states) in the reinvigoration of the National Reform Agenda (the NRA). Collaboration between all levels of government is crucial to achieving a successful outcome of the NRA. With many of the most beneficial reforms beyond the limited fiscal capacity of the states alone, much of the potential gain of the NRA depends on the full commitment of the Commonwealth.

Various statements made in the budget papers have been observed by the Committee to indicate that there are issues and opportunities to progress discussions with the Commonwealth Government. Some of these are set out below:⁷¹

- *At the April 2007 meeting of COAG, first Ministers agreed to national standards for teachers and school leaders, quality assurance and regulation of child care and kindergarten, and a nationally enacted school entry assessment system. This is a step forward for national collaboration, but more needs to be done, in particular commitment to and funding for real reform as expressed in Victoria's State Action Plans; and*
- *Other chronic diseases....(apart from type 2 diabetes)...such as mental illness, cancer and arthritis also have significant effects on quality of life and labour force participation. Options to prevent and better manage these diseases will need to be developed. The upcoming renegotiations with the Commonwealth Government for a new Australian Health Care agreement provide an opportunity to encourage health system reform.*

The Committee will view with interest:

- the extent to which the establishment of the Council for the Australian Federation, (the Council) established in October 2006 to improve the way that the states and territories work together to deliver key services that affect Australians' daily lives,⁷² has been effective in facilitating discussions between state and territory leaders on issues of national importance (the Committee noted that the Council was made up solely of the states and territories); and
- whether the monitoring activities of the COAG Reform Council (CRC), an independent body established to report to COAG annually on progress in implementing the National Reform Agenda in terms of the achievement of agreed reform milestones and progress measures,⁷³ have contributed to any positive outcomes for Victorians.

The Committee also noted the view expressed by the Department of Treasury and Finance that, in terms of moving forward, ongoing discussions under the NRA umbrella could focus on future reform opportunities, including scope to better manage integration and flexibility of the service system between levels of government. With this background in mind, the Committee noted that according to the Department of Justice, while cross-jurisdictional collaboration has been advanced through bi-lateral agreements on service delivery to indigenous Australians, there are currently no bilateral agreements in place between the department and the Commonwealth on justice issues for the indigenous community.

⁷⁰ Budget Paper No.2, 2007-08 *Strategy and Outlook*, p.65

⁷¹ *ibid.*, pp.96-97

⁷² www.dpc.vic.gov.au, accessed 20 August 2007

⁷³ Council of Australian Governments, *Communique*, 10 February 2006, p.9

The Committee recommends that:

- Recommendation 1:** **The Victorian Government continue to focus on securing the fullest fiscal commitment from the Commonwealth to NRA reforms in order to maximise economic, social and environmental outcomes for Victoria.**
- Recommendation 2:** **The role of the National Reform Secretariat established within the Department of Premier and Cabinet be expanded to monitor the progress achieved by departments in terms of implementing the NRA programs and projects and report directly to the Premier on outcomes achieved on an ongoing basis.**
- Recommendation 3:** **The Department of Treasury and Finance require departments to disclose in annual reports their performance in achieving agreed outcomes under the NRA, including funding from the Commonwealth to assist Victoria implement the full package of its NRA proposals brought forward to COAG each year.**
- Recommendation 4:** **The Department of Premier and Cabinet, as part of its coordinating role in the development of the NRA in Victoria, ensure that:**
- (a) timelines including key milestones are established for the various NRA programs and projects implemented by government departments;**
 - (b) information regarding progress made in implementing key NRA programs and projects against milestones be reported in budget documents issued by the Treasurer; and**
 - (c) evaluations, including assessments of measurable costs and benefits against estimates, take place with regard to the delivery of key NRA programs and projects.**

3.3 Allocation of state funding in 2007-08 for initiatives under the National Reform Agenda

COAG agreed in July 2006 that the Commonwealth Government would fund states and territories on a case-by-case basis, if required, to ensure the respective governments share the costs and benefits of reform. The funding will be available once the states and territories have developed specific implementation plans.⁷⁴

While none of the ten departments allocated funding to the National Reform Agenda for 2006-07,⁷⁵ table 3.2 shows that the vast majority of the funding allocated in 2007-08 and beyond relates to advancing the human capital stream of the NRA.

⁷⁴ Council of Australian Governments, Communique, 14 July 2006, p.8

⁷⁵ Public Accounts and Estimates Committee, *Report on the 2006-07 Budget Estimates*, p.94

Table 3.2: State funding connected with initiatives under the National Reform Agenda 2007-08

| Department | State funding |
|---|---|
| Education | <p>Of the \$323.8 million committed by the Victorian Government in its Plan to Improve Literacy and Numeracy Outcomes, \$207.7 million is funded within the 2007-08 budget. Funding will support programs such as the Career Change program, Scholarships for Science Graduates, Teacher Assistants and Primary Welfare Officers.</p> |
| Human Services | <p>Victoria has allocated an additional \$137 million over four years to NRA initiatives (significantly exceeding the requirements under the cost sharing formula), which translates to funding in 2007-08 of \$39.6 million for the following programs:</p> <ul style="list-style-type: none"> • <i>Go for your life</i>: \$31.7 million • <i>Meeting our transport challenges</i>: \$7.9 million <p>This is in addition to the \$472 million committed over the 2006-2011 period as Victoria's contribution to COAG's National Action Plan on Mental Health.</p> <p>Victoria's Plan to Improve Outcomes on Early Childhood, released in April 2007, also proposes a state contribution of \$136 million over the next four years to a program of joint action with the Commonwealth.</p> |
| Infrastructure | <p>The staffing resources that the department is committing to work on the COAG program are being drawn from existing staff numbers. The work being undertaken is not affecting the department's capacity to deliver its services.</p> <p>The department will be able to make its contribution to the NRA principally through the work being undertaken by departmental staff on relevant projects and issues. Victoria may be required to provide some funding to studies on a needs basis.</p> |
| Innovation, Industry and Regional Development | <p>In terms of examining the extent of state funding that has been allocated in 2007-08 for initiatives under the NRA, there are no 2007-08 budget implications for the business licensing project or the ABN/business names project. With regard to the area covering Apprenticeships, Training and Skills Recognition, Victoria will match the Commonwealth's commitment to provide \$2.7 million (excluding GST) over three years to establish Skills Stores. The matched funding is included in the \$23 million Skills Stores initiative announced in the 2006-07 Victorian budget. A key function of Skills Stores is to facilitate the uptake of Recognition of Prior Learning (RPL).</p> <p>The focus of the first year will be development of guidelines to inform consistent systemic implementation.</p> <p>The strategies for the first year in summary are:</p> <ul style="list-style-type: none"> • guidelines to assist the development and implementation of effective RPL models. This includes standardisation of definitions, Office of Training and Tertiary Education policies, and auditing procedures (\$220,000); • best practice case studies, a resource reference tool for practitioners and a communication strategy across the sector (\$225,000); and • capacity building through delivery of RPL training workshops for assessors associated with Skills Stores, specific industry sectors and local needs (\$470,750). <p>Project plans for 2007-08 and 2008-09 will be developed on the basis of experience gained in the first year.</p> |

Table 3.2: State funding connected with initiatives under the National Reform Agenda 2007-08 (continued)

| Department | State funding |
|--------------------------------|--|
| Justice | Two Victorian public service (VPS) Grade 6 positions are currently funded by the department for central coordination of work related to 'Reducing the Regulatory Burden' and the 'Better Practice Regulation' initiatives across the department. |
| Premier and Cabinet | <p>The department has established a National Reform Secretariat to work on COAG and NRA (comprising 7.8 equivalent full-time (EFT) departmental officers). Capacity has been achieved through reprioritisation of resources.</p> <p>A major program of work for the department will be to lead work relating to the NRA and other COAG related policy initiatives. No specific funding has been allocated for this initiative, but it will be a key priority in policy advice and projects of the department.</p> <p>However specific funding of \$168,000 and \$150,000 in 2007-08 has been allocated respectively for Victoria's support to the Council for the Australian Federation and the COAG Reform Council, the two new inter-governmental institutions, which will strengthen cooperation between Australian governments and aims to improve services delivered to Victorians.</p> |
| Primary Industries | The department's share of funding for the national energy market reform program will be approximately \$5 million in 2007-08. |
| Sustainability and Environment | Work is being managed within existing resources and no state funding has been allocated to the department in 2007-08 for initiatives under the NRA. |
| Treasury and Finance | The department has not received any funding in 2007-08 for the NRA, although it has a role in working with the Department of Premier and Cabinet on aspects of the NRA and attending related meetings with COAG. |
| Victorian Communities | <p>The NRA is not expected to detract from the provision of ongoing department services.</p> <p>No separate funding has been allocated specifically to the department for 2007-08 with regard to the NRA.</p> |

Sources: Responses to the Committee's 2007-08 Budget Estimates questionnaire: Department of Education, p.17; Department of Human Services, p.25; Department of Infrastructure, pp.24–25; Department of Innovation, Industry and Regional Development, p.25; Department of Justice, p.34; Department of Premier and Cabinet, p.17; Department of Primary Industries, p.18; Department of Sustainability and Environment, p.27; Department of Treasury and Finance, p.17; Department for Victorian Communities, p.16

3.4 Supplementary information

Table 3.3: Departmental involvement in the National Reform Agenda

| Department | Response to the National Reform Agenda as outlined in the response from departments to the 2006-07 Budget Estimates questionnaire | Response to the National Reform Agenda as outlined in the response from departments to the 2007-08 Budget Estimates questionnaire |
|--|---|--|
| Parliamentary departments | | The National Reform Agenda (NRA) does not impact on the Parliament of Victoria's operations. |
| Education and Training (former), now Department of Education under machinery of government changes | The department is working closely with the Department of Premier and Cabinet and the Department of Treasury and Finance to progress work under the human capital stream of the National Reform Agenda. It is also contributing to a report on transition pathways from school to work, which the Ministerial Council on Education, Employment, Training and Youth Affairs is undertaking. The department is making further contributions through the Council of Australian Government (COAG) agreed outcomes to address skills shortages through a national approach to apprenticeships, training and skills recognition. | <p>The department has worked closely with the Department of Premier and Cabinet and the Department of Treasury and Finance to develop Victoria's Plan to Improve Literacy and Numeracy Outcomes and contribute to the development of multilateral reforms for the agreement and implementation by all jurisdictions.</p> <p>Improving the literacy and numeracy attainment of school aged children has been identified as one of three streams of priority work under the human capital stream of the NRA. Literacy and numeracy attainment has been given priority due to evidence that supports its potential to boost workforce participation and productivity.</p> <p>The 10 actions the Victorian Government has committed to in Victoria's Plan to Improve Literacy and Numeracy Outcomes will be rolled out progressively by a number of Divisions across the Department of Education including the Human Resources Division, the Student Learning Programs Division, the Student Wellbeing and Support Division and the Infrastructure Division.</p> <p>Departmental officers within the Commonwealth-State and External Relations Division, Strategic Policy and Research Division and the Student Learning Programs Division will continue to work with other jurisdictions (through the Ministerial Council on Education, Employment, Training and Youth Affairs – MCEETYA) to implement multilateral actions agreed by COAG under the NRA.</p> |

Table 3.3: Departmental involvement in the National Reform Agenda (*continued*)

| Department | Response to the National Reform Agenda as outlined in the response from departments to the 2006-07 Budget Estimates questionnaire | Response to the National Reform Agenda as outlined in the response from departments to the 2007-08 Budget Estimates questionnaire |
|----------------|--|--|
| Human Services | <p>The department is working with the Department of Premier and Cabinet and the Department of Treasury and Finance to develop nationally agreed outcomes and measures, and state implementation plans, that will deliver outcomes aimed at contributing to increased workforce participation and productivity. The focus of this work is on improving the prevention and management of chronic diseases. The department is also working on National Reform Agenda issues relating to early childhood through the Office for Children, and is contributing to the mental health agenda. It considers the National Reform Agenda will have implications for its services, with the potential to fundamentally reshape Commonwealth-State relations, and provide some new avenues for funding a more integrated approach to health care delivery. This is likely to lead to a greater focus on prevention and early intervention.</p> | <p>The Department of Human Services (DHS), in collaboration with the Department of Premier and Cabinet (DPC) and the Department of Treasury and Finance (DTF), developed <i>Victoria's Plan to Address the Growing Impact of Obesity and Type 2 Diabetes (2007)</i> in response to the first tranche of work under the ten year NRA. The plan proposed a set of actions over the first four years that would address the health outcomes agreed by Council of Australian Governments (COAG) under the human capital stream of the NRA. The plan was submitted for consideration by COAG on 13 April 2007, along with the action plans of other jurisdictions and a number of proposed multilaterally agreed actions making up the NRA package of reform proposals for the prevention and management of type 2 diabetes.</p> <p>Victoria's plan built on existing initiatives and included new commitments foreshadowed in Labor's policy for the 2006 Victorian election under the <i>Go for your life!</i> strategy. These commitments included creating supportive environments to promote and facilitate physical activity; providing lifestyle modification programs for eligible persons at risk of progressing to type 2 diabetes; and providing early intervention educational programs for those people newly diagnosed with type 2 diabetes.</p> <p>Additional actions were recommended that would increase the pace of reform in Victoria, but were conditional on Commonwealth funding as part of a 'fair sharing of costs and benefits'. In addition, the Commonwealth was asked to consider a number of proposed actions in its areas of responsibility that would facilitate improved health outcomes.</p> <p>COAG agreed to a new cost shared national package of \$200 million to address the significant growth in type 2 diabetes. Details of the package, drawing on jurisdictional plans, is being developed by officials. COAG also agreed to develop by mid-2008 a nationally agreed risk assessment tool, program standards and accreditation arrangements for programs and/or providers to reduce the risk of developing type 2 diabetes and for people newly diagnosed with type 2 diabetes.</p> <p>New initiatives in Victoria's plan are aligned with existing commitments. To this extent the requirement to extend or develop services exists regardless of the final outcome of COAG consideration of actions under the NRA.</p> <p>There will be an annual requirement to report on Victoria's performance in achieving any agreed health outcomes under the NRA. This will require program evaluation and reporting requirements similar to those currently in place for other COAG projects, such as the Australian Better Health initiative.</p> |

Table 3.3: Departmental involvement in the National Reform Agenda (*continued*)

| Department | Response to the National Reform Agenda as outlined in the response from departments to the 2006-07 Budget Estimates questionnaire | Response to the National Reform Agenda as outlined in the response from departments to the 2007-08 Budget Estimates questionnaire |
|---|---|---|
| Infrastructure | <p>The department is advising the Victorian representatives on the Competition and Regulation Working Group (CRWG), a COAG group that forms the steering committee for a national review of urban congestion. It is also participating in the inter-jurisdictional group that will be preparing the draft report for the CRWG's consideration. The department is also preparing a five yearly infrastructure report, in consultation with the Department of Sustainability and Environment, the Department of Premier and Cabinet and the Department of Treasury and Finance. Other work includes reviewing its port regulations and making a submission to the Productivity Commission on road and rail pricing.</p> | <p>Under the NRA, COAG agreed to a range of tasks that involved participation by the department:</p> <ul style="list-style-type: none"> • The report on the national review of urban congestion was submitted to the CRWG in December 2006. COAG released the report on 13 April 2007. • The five yearly infrastructure report was due in January 2007. The department, which coordinated the drafting of Victoria's report, submitted the draft report to Premier and Cabinet in December 2006 for forwarding to the Commonwealth as part of COAG coordination. COAG released each jurisdiction's report on 13 April 2007. • In the case of Victoria, it has been agreed that the review of its ports regulation will focus on the Port of Melbourne and the relationship between port policy and strategic planning and the entry of new suppliers of services, such as stevedoring. The review is to be completed by the end of 2007. Terms of reference and arrangements for conduct of the review are currently under discussion between the department and central agencies. • On behalf of the Victorian Government, the department developed the Victorian Government's submissions to the Productivity Commission Inquiry into Road and Rail Infrastructure Pricing and has provided assistance in the development of the COAG response to the Inquiry which was released on 13 April 2007. • On 1 August 2006, Victoria introduced its new Rail Safety Legislative Regime. The Victorian regime is consistent with the National Model Legislation which is a component of the work schedule for harmonising and reforming road and rail regulations. |
| Innovation, Industry and Regional Development | <p>The department is supporting the work of other departments through participation on inter-departmental committees. It does not expect any implications for departmental services from its participation in the National Reform Agenda.</p> | <p>The department is involved in the following three areas related to the National Reform Agenda:</p> <p>(a) Business Licensing</p> <p>COAG, at its 14 July 2006 meeting requested the Small Business Ministerial Council (SBMC) to consider options for the full mutual recognition of all business licensing requirements and report back to COAG by November 2006.</p> <p>The department has led work to identify areas on which a review of business licensing should focus (for maximum impact) and to establish the costs, risks and challenges of full or partial mutual recognition.</p> |

Table 3.3: Departmental involvement in the National Reform Agenda (*continued*)

| Department | Response to the National Reform Agenda as outlined in the response from departments to the 2006-07 Budget Estimates questionnaire | Response to the National Reform Agenda as outlined in the response from departments to the 2007-08 Budget Estimates questionnaire |
|---|---|---|
| Innovation, Industry and Regional Development (<i>continued</i>) | | <p>(b) ABN/Business Names</p> <p>At its April 2007 meeting COAG noted the interim report from the SBMC to develop a model to deliver a seamless single online registration system for Australian Business Numbers (ABN) and business names including trademark searching. COAG requested that SBMC, in consultation with the Ministerial Council on Consumer Affairs, develop a business plan for implementation of a preferred model, based on maximising the positive net benefits following a detailed analysis of the costs and benefits.</p> <p>This project has close links to the department's World Class Service project, with its focus on improved and streamlined service delivery arrangements for Victorian business, and Victoria is working closely with the Commonwealth and other jurisdictions on development of the appropriate business plans.</p> <p>(c) Apprenticeships, Training and Skills Recognition</p> <p>The Office of Training and Tertiary Education (OTTE) is involved in a number of measures agreed on under the COAG National Reform Approach to Apprenticeships, Training and Skills Recognition to improve the vocational education and training (VET) sector, including:</p> <ul style="list-style-type: none"> • more effective mutual recognition of occupational licensing between jurisdictions; • an appropriate system for recognition of overseas qualifications; • competency based completion of apprenticeships; • accelerated implementation of an outcomes based auditing model for registered training organisations (RTOs) in Australia; • Recognition of Prior Learning program; • intermediate or specialised qualifications for the residential building and construction industry; • enabling school based apprenticeships; and • further reform of Vocational Education and Training. <p>Involvement in the NRA related projects has marginal impact on departmental services as the issues addressed are those with which the department is already actively engaged as part of its portfolio responsibilities. Internal reallocation of staff has enabled the NRA related projects to be pursued effectively.</p> |

Table 3.3: Departmental involvement in the National Reform Agenda (*continued*)

| Department | Response to the National Reform Agenda as outlined in the response from departments to the 2006-07 Budget Estimates questionnaire | Response to the National Reform Agenda as outlined in the response from departments to the 2007-08 Budget Estimates questionnaire |
|------------|---|--|
| Justice | <p>The department is responding to all facets of the National Reform Agenda through the delivery of programs and initiatives to encourage workforce participation, applying National Competition Policy, and establishing a consistent, best practice regulatory framework.</p> | <p>Most reforms are likely to take the form of consistency of laws and processes across states and territories, coupled with enhanced opportunities to exchange information.</p> <p>In accordance with the NRA, the department will continue with current effective purchasing arrangements to prevent the introduction of unwarranted competition restrictions. In terms of the current National Competition Policy Legislative Review Program, all priority legislative reviews have been completed.</p> <p>Victoria's Reducing the Regulatory Burden project was announced by the Treasurer in the state budget on 30 May 2006. Consumer Affairs Victoria (CAV) leads this initiative for the department. This project commits the Victorian Government to reducing both the administrative and compliance burden of regulation. Strategies are currently under development and by May 2007, every department was required to develop and implement a strategy for reducing the major administrative burdens identified through review of legislation administered by their Minister(s). In addition, departments are required to submit proposals for review of compliance burdens in legislation and propose reductions. Proposal submissions to the Department of Treasury and Finance for funding to review compliance burdens include:</p> <ul style="list-style-type: none"> • Consumer Affairs Victoria (CAV)/Business Licensing Authority (BLA) Occupational Licensing Review; • Victoria Police Reduction of Regulatory Burdens on Firearms, Private Security and Controlled Weapons Licence and Registration Holders; and • Department of Justice Better Business Regulation Stage 3 (Rollout of Process Maturity and Performance Measurement assessments across Justice regulators). <p>In the context of gambling regulation, the Productivity Commission and the National Competition Council (NCC) have both agreed that a relatively high level of regulatory controls is justifiable, as gambling regulation is focused on ensuring probity, harm minimisation and consumer protection. The NCC has also accepted that national consistency in Gambling regulation may not be achievable given the significantly different industry structures that exist in each jurisdiction. In short, it is accepted that in relation to gambling, regulatory controls are in the public interest.</p> |

Table 3.3: Departmental involvement in the National Reform Agenda (*continued*)

| Department | Response to the National Reform Agenda as outlined in the response from departments to the 2006-07 Budget Estimates questionnaire | Response to the National Reform Agenda as outlined in the response from departments to the 2007-08 Budget Estimates questionnaire |
|------------------------------|---|--|
| Justice (<i>continued</i>) | | <p>The department is currently reviewing the licensing arrangements for public lotteries. In addition, the department is currently reviewing the licensing arrangements for electronic gaming machines, club keno, wagering and funding arrangements for the racing industry post 2012. The department will provide advice to government in relation to post-2012 licence structures and funding arrangements in the latter part of 2007.</p> <p>Other regulatory areas of activity subject to COAG reforms include:</p> <ul style="list-style-type: none"> • business registration; • Personal property securities; • product safety; and • trade measurement. <p>In terms of growing the workforce, the NRA encourages a focus on those groups with the greatest potential to increase their participation. The department has been proactive in recognising and encouraging this potential, particularly in the key groups of women, youth and indigenous Australians.</p> <p>The department continues to address occupational health and safety (OHS) issues as a measure of ongoing workforce participation and has developed an OHS strategy and action plan for 2005 to 2007. It has implemented a number of key strategies focused on establishing a systematic approach to the management of occupational health and safety risks.</p> <p>The NRA states that cross-jurisdictional collaboration has been advanced through bi-lateral agreements on service delivery to indigenous Australians. There are currently no bilateral agreements in place between Victoria's Department of Justice (DOJ) and the Commonwealth on justice issues for the indigenous community. However, the Victorian Government, in partnership with the Lake Tyers community, Commonwealth and local government committed itself to a ten year Lake Tyers Community Renewal Project in 2005. To demonstrate its commitment, the state government announced a \$3.2 million commitment to the Renewal Project in 2005-06. The Commonwealth Government, through the Department of Families, Community Services and Indigenous Affairs, has committed \$1.5 million for a sewerage system up-grade much needed in Lake Tyers. The Commonwealth has also provided funding for a range of home maintenance repairs and assisted in domestic road upgrade. Both state and Commonwealth Governments have also focused on providing employment opportunities through the Renewal Project, with an Employment Development Officer on-site to increase employment outcomes for residents.</p> |

Table 3.3: Departmental involvement in the National Reform Agenda (*continued*)

| Department | Response to the National Reform Agenda as outlined in the response from departments to the 2006-07 Budget Estimates questionnaire | Response to the National Reform Agenda as outlined in the response from departments to the 2007-08 Budget Estimates questionnaire |
|---------------------|--|---|
| Premier and Cabinet | <p>As well as initiating the National Reform Agenda through the A Third Wave of National Reform report, the department has actively supported the development of the National Reform Agenda through COAG meetings, chairing and participating in COAG working groups, and promoting Victoria's approach to the National Reform Agenda through Senior Officials Meetings (SOM). It has also established a National Reform Secretariat to work on COAG and the National Reform Agenda. Capacity has been achieved through reprioritisation of resources.</p> | <p>The department has continued to take a very active role in supporting the development of the NRA through COAG meetings, chairing of and representation on COAG working groups and promoting Victoria's approach to NRA through senior officials meetings.</p> <p>The Council for the Australian Federation (CAF) was established in October 2006. CAF will facilitate state and territory leaders to discuss issues of national importance. In addition, the creation of the COAG Reform Council (CRC) represents an important forum intended to monitor reform under the NRA.</p> <p>The creation of CAF and CRC will strengthen cooperation between Australian governments and improve the services delivered to Victorians.</p> <p>Implementation of the NRA over 25 years is estimated to increase Australia's GDP by 9 per cent to 14 per cent.</p> <p>The NRA proposes a strategic and holistic approach to lifting productivity and increasing workforce participation through reform in the areas of competition, regulation and human capital. If implemented as envisaged by Victoria, the NRA will fundamentally reshape Commonwealth-State relations and provide a major new source of funding for health and education and competition and regulation reform.</p> |

Table 3.3: Departmental involvement in the National Reform Agenda (*continued*)

| Department | Response to the National Reform Agenda as outlined in the response from departments to the 2006-07 Budget Estimates questionnaire | Response to the National Reform Agenda as outlined in the response from departments to the 2007-08 Budget Estimates questionnaire |
|--------------------------------|--|--|
| Primary Industries | <p>The department is participating in whole of government NRA activities including the development of a workforce participation strategy for Victoria, with an emphasis on building the capacity of the workforce and addressing barriers and disincentives. The department has been involved in the deregulation of industries in the Agriculture portfolio and adopting a flexible, outcome focused regulation in areas including earth resources, fisheries and biosecurity. It is also actively involved in implementing regulatory reform in the water area. The full impact of the NRA on departmental services is currently unclear. Given its regulatory role in relation to various primary industries, there is likely to be some impact on the department's activities as a result of a coordinated, whole of government approach to regulatory reform. The extent of that impact will not be clear until the actions required have been fully developed.</p> | <p>The department is participating in the competition stream of the NRA by developing and implementing the COAG energy market reforms. The department's energy policy services are resourced to deliver the relevant advice for, and related development of, Victoria's share of the transfer of energy regulation to the national energy market reform framework. COAG has directed the Ministerial Council on Energy to implement the agreed reform program. The program includes establishing a National Energy Market Operator, an enhanced national planning function for the power transmission system, the development of national legislation and Rules for regulating the distribution and retailing of electricity and gas (apart from price regulation), and oversight and funding of the national energy market institutions, the Australian Energy Market Commission and the Australian Energy Regulator. The department is leading the development of the national framework for distribution and retailing, and contributes substantially to the implementation working groups for the other components of the national energy market reform program. The department is also participating in broader Victorian government regulation reform efforts in areas like water and reducing red tape. The Department of Sustainability and Environment (DSE) is the lead agency in relation to the state and national reforms on water. While the department is working closely with DSE, any changes to legislation/regulations is the responsibility of the Minister for Water and DSE and therefore not the direct responsibility of the department.</p> |
| Sustainability and Environment | <p>The department is supporting the Climate Change Group (CCG) and undertaking work for the Natural Resources Management Ministerial Council (NRMIC). The CCG's role is to oversee the implementation of the Climate Change Plan of Action's recommendations. COAG has tasked the NRMIC with examining and reporting on the possible development of emissions intensity benchmarks and environmental management systems for agriculture, which include the development of new approaches to reduce emissions from agriculture and land use, and new measures to promote carbon sequestration in agriculture and land use.</p> | <p>In February 2006, COAG agreed to adopt a new national Climate Change Plan of Action and to establish a high level inter-jurisdictional Climate Change Group to oversee implementation of the Plan's recommendations. COAG decided that the Climate Change Group will prepare a National Adaptation Framework for its review. COAG agreed to progress review of regulatory 'hot spots', including environmental assessment and approvals processes under the <i>Environmental Protection and Biodiversity Conservation Act 1999</i>. COAG committed to streamlining and harmonising development assessment processes within jurisdictions. The department is supporting these work programs under the NRA.</p> |

Table 3.3: Departmental involvement in the National Reform Agenda (*continued*)

| Department | Response to the National Reform Agenda as outlined in the response from departments to the 2006-07 Budget Estimates questionnaire | Response to the National Reform Agenda as outlined in the response from departments to the 2007-08 Budget Estimates questionnaire |
|-----------------------|--|--|
| Treasury and Finance | <p>The Department of Treasury and Finance is working with the Department of Premier and Cabinet on aspects of the NRA that have financial implications, or that could increase Victoria's growth prospects in the long term.</p> | <p>Victoria's involvement in the development of the National Reform Agenda is being coordinated by the Department of Premier and Cabinet (DPC). The DTF has been working with DPC on aspects of the agenda that have financial implications or could increase Victoria's growth prospects in the long term.</p> <p>In considering the implications of the NRA for departmental services, COAG announced at the meeting on 13 April 2007 a number of actions to be taken by the Commonwealth and the states and territories, including Commonwealth funding to tackle diabetes. Given Victoria's recent announcements of measures for diabetes prevention, no additional impact on departmental services is expected. More broadly, ongoing discussions under the NRA umbrella could focus on future reform opportunities, including potential to manage integration and service flexibility better between levels of government.</p> |
| Victorian Communities | <p>The Department for Victorian Communities is not currently implementing initiatives arising from the NRA. The department will support the central agencies in implementation as necessary.</p> | <p>The department will contribute to the NRA through its focus on workforce participation. To focus effort on the Human Capital National Reform Agenda, the COAG has agreed to 11 indicative outcomes from the reforms. A number of these outcomes explicitly seek to increase workforce participation. These include to:</p> <ul style="list-style-type: none"> • reduce the number of the working age population not participating and/or under participating in paid employment due to illness, injury or disability; • increase the proportion of young people making a smooth transition from school to work or further study; • increase the proportion of adults who have the skills and qualifications needed to enjoy active and productive working lives; • improve overall workforce participation, with a particular focus on target groups, in a manner consistent with the long term interests of the individual and the economy, giving due regard to productivity; and • increase the provision of flexible working arrangements within the workforce, in a manner consistent with the long term interests of the individual and the economy. |

Table 3.3: Departmental involvement in the National Reform Agenda (continued)

| Department | Response to the National Reform Agenda as outlined in the response from departments to the 2006-07 Budget Estimates questionnaire | Response to the National Reform Agenda as outlined in the response from departments to the 2007-08 Budget Estimates questionnaire |
|--------------------------------------|---|--|
| Victorian Communities (continued) | | <p>The department, through Employment Programs, is leading the development of a whole of government Workforce Participation Strategy that will be based on the findings of Victoria's Workforce Participation Taskforce.</p> <p>The Strategy will link closely with broader Victorian Government responses to skills needs (for example, the Maintaining the Advantage initiatives and the COAG VET Reform work), seeking to increase the access of people with lower skills attainment to education, training and employment pathways.</p> <p>The Strategy will focus on assisting specific groups that face barriers to employment back into the workforce. These target groups include women, mature age people, people with disabilities, Indigenous people and people from culturally and linguistically diverse backgrounds. The Strategy will build on the Workforce Participation Partnerships program, the new Experience Counts program, the new Disability Trainee Scheme, and the continuation of Victoria's Skilled Migration Strategy.</p> |

Sources: *Public Accounts and Estimates Report, Report on the 2006-07 Budget Estimates, pp.95–96 and responses to the Committee's 2007-08 Budget Estimates questionnaire: Parliamentary Departments p.11, Department of Education, p.17 (first response, p.2 (third response); Department of Human Services, p.24; Department of Infrastructure, p.24; Department of Innovation, Industry and Regional Development, pp.24–25; Department of Justice, pp.27–34; Department of Premier and Cabinet, pp.16–17; Department of Primary Industries, p.18; Department of Sustainability and Environment, p.27; Department of Treasury and Finance, p.17; Department for Victorian Communities, pp.15–16*

3.5 Summary of work undertaken in developing the first tranche of detailed reform policies between July 2006 and April 2007

A summary of the work undertaken in developing the first tranche of detailed reform policies between July 2006 and April 2007 is set out below:⁷⁶

- In the period **after the July 2006 COAG meeting**, all States and territories developed detailed reform proposals in the key human capital areas of literacy and numeracy, diabetes and early childhood development. Commitments from all States and Territories totalled more than \$3 billion;
- In **February 2007** the Productivity Commission released a report titled *Potential Benefits of the National Reform Agenda* on the potential economic and fiscal impact of the NRA. The report found that the majority of benefits would arise from the human capital area of reforms;
- In **March 2007**, the Victorian Government released a consultation paper titled *Victoria's plan to improve outcomes in early childhood: one of Victoria's proposals under the National Reform Agenda*, setting out a ten year plan for laying the foundation for a brighter future for Victorian children;
- In **April 2007**, the Council for the Australian Federation released the first paper in a series designed to inform public debate on federal issues titled *Australia's Federal Future*. The second paper in this series, *The Future of Schooling in Australia*, was also released by the States and Territories in April 2007;
- In **April 2007**, the following three Victorian Action Plans were released that set out ten year visions for the Victorian and Commonwealth Governments to work together to be tabled at COAG:
 - *Victoria's Plan to improve literacy and numeracy outcomes*: Victoria committed \$323.8 million in new funds over four years;
 - *Victoria's plan to address the growing impact of obesity and type 2 diabetes*: Victoria committed \$137 million in new funds over four years;
 - *Victoria's plan to improve outcomes in early childhood*: Victoria committed \$136 million in new funds over four years;
- Prior to the COAG meeting in April 2007, States and Territories collectively developed a *ten-point plan* outlining the key commitments required to make the NRA a success. Premiers and Chief Ministers wrote to the Prime Minister on **5 April 2007**, outlining their collective wish to reach agreement on implementation of this package of reforms;
- On **13 April 2007**, COAG met to decide on implementation of the NRA, including funding and governance arrangements. The Commonwealth and the states and territories agreed on a number of important elements of the NRA that are set out below:
 - on human capital reform, COAG agreed to some multilateral initiatives: to develop a core set of nationally consistent teacher standards for literacy and numeracy; implement diagnostic assessment systems for children in their first year of school; and develop a nationally agreed diabetes risk assessment tool;
 - the Commonwealth announced a commitment of \$100 million to combat growth in type 2 diabetes at COAG to complement the commitment made by States and Territories in their jurisdictional action plans; and

⁷⁶ www.dpc.vic.gov.au, accessed 18 July 2007

- on competition and regulation reform, COAG agreed to address various regulatory hot spots, and agreed on reforms for energy, transport and infrastructure.

At the **13 April 2007** COAG meeting, a number of other matters dealing with implementing the NRA in terms of future funding and governance arrangements are summarised below:⁷⁷

- COAG agreed that the CRC role will be to monitor progress in implementing NRA reforms and to assess the costs and benefits of reforms referred to it unanimously by COAG;
- COAG confirmed that once consolidated, new, national reform initiatives are agreed by COAG, COAG will consider referring them to the CRC. COAG would determine what represented a new reform initiative;
- The CRC will monitor the implementation of those reforms referred to it by COAG and provide COAG with annual reports on progress. As reforms are implemented and economic, fiscal and other benefits are being realised, the CRC will provide COAG with a broad ex-post assessment of the costs and benefits of individual reform packages, giving consideration to the differences between jurisdictions;
- Following receipt of the CRC's assessment of a specific reform, the Commonwealth, state and territory governments will consider if any 'fair-sharing' payments are required by any government, given the relative costs and benefits of the reforms;
- The Commonwealth confirmed its commitment to provide funding to the States and Territories on a case-by-case basis, if funding is needed to ensure a fair sharing of the costs and benefits of reform. Any Commonwealth funding:
 - could take the form of either:
 - ... Commonwealth or shared funding towards specific new initiatives undertaken by the Commonwealth, states and territories, at the time COAG agrees a reform proposal; or
 - ... 'fair sharing' outcome payments linked to achieving tangible results down the track;
 - would not include generic up-front payments;
 - would be in addition to other Commonwealth funding; and
 - would be decided on by the Commonwealth.

With regard to the outcomes derived from the COAG meeting of 13 April 2007, the Department of Premier and Cabinet concluded, in part, that:⁷⁸

While the outcomes of COAG fell short of what was required, Victoria remains committed to the rationale and principles of the NRA. The NRA has generated many important policy initiatives, particularly in relation to human capital. It has been crucial in raising to a national level the importance of investment in human capital as part of future national prosperity.

Victoria will progress future work in key human capital areas through the action plans developed for COAG. All states and Territories will continue to pursue reform in the national interest through the Council for the Australian Federation.

⁷⁷ Council of Australian Governments, Communique, 13 April 2007, pp.1–10
⁷⁸ www.dpc.vic.gov.au, accessed 18 July 2007

CHAPTER 4: IMPACT OF PORTFOLIO SPENDING INCLUDING NEW BUDGET INITIATIVES ON IMPROVING PRODUCTIVITY IN VICTORIA

Key findings of the Committee:

- 4.1** In terms of long term trends, Australia's annual labour productivity growth has averaged 1.8 per cent over the past 40 years, but has varied considerably from decade to decade. It was above its long term average in the 1970s (2.0 per cent), slowed in the 1980s (1.2 per cent), but picked up again in the 1990s (2.1 per cent), accelerating noticeably from the middle of the decade. From 2000, however, annual labour productivity growth has slowed to around 1.5 per cent.
- 4.2** Australia's multifactor productivity that grew by 1.5 per cent between 1990 and 1995, showed higher growth of 1.7 per cent from 1995 to 2000, but grew at a lesser rate of 1.3 per cent between 2000 and 2004.
- 4.3** Relative to the United States, Australia's productivity performance in the context of multifactor productivity grew at a higher rate between 1990 and 1995 (1.5 per cent compared with 0.7 per cent) and between 1995 and 2000 (1.7 per cent compared with 1.3 per cent); but in the first four years of the 21st century, productivity growth fell behind that of the United States (1.3 per cent compared with 1.9 per cent).
- 4.4** A comparison of Australia's multifactor productivity growth to other Organisation for Economic Cooperation and Development (OECD) countries revealed that between 1995 and 2000, Australia's productivity growth exceeded 15 OECD countries and was below that of four OECD countries. Given that between 2000 and 2004 Australia's multifactor productivity growth exceeded 12 OECD countries but was below that of seven, Australia's performance declined from where it was positioned in the second half of the 1990s.
- 4.5** Productivity in Victoria, measured in terms in terms of Gross State Product (GSP) per hour worked, improved in the vast majority of years from 1989-90 to 2005-06, a trend that has been mirrored at the national level. Victoria has been more productive than the nation as a whole in all years from 1998-99 to 2005-06 except for 2000-01. Prior to that, Victoria has been less productive than Australia from 1989-90 to 1997-98 except for 1992-93. In terms of growth rates, Victoria experienced the greatest increases in productivity in the following years – 1992-93, 1995-96, 1997-98, 1998-99, 2001-02, 2003-04 and 2005-06 with the greatest increases occurring in 1992-93, 1998-99, 2001-02 and 2003-04.
- 4.6** The Committee's analysis of the various measures taken across government portfolios to improve productivity in Victoria revealed a range of actions across the public sector that showed some variability in approach. Some answers focused on 'macro' or wider productivity action and impact (for example, improved skills and improved health impacts). Conversely, other responses centred on 'micro' impacts, such as specific program savings within portfolios or individual programs.

- 4.7** The estimates hearing process with Ministers identified in various departments examples within particular portfolios that demonstrate improvements in productivity in the past or potential for doing so in the future (further commentary and statistical analyses will be included in the Committee's sequel to this report, the *Report on the 2006-07 Budget Outcomes*, which is planned to be tabled later this financial year).
- 4.8** The Committee noted from its inquiries through the estimates hearings, the vital role the following mechanisms will be required to play in enhancing Victoria's productivity in future:
- research and development (for example, through evidence taken from the Minister for Agriculture);
 - innovation and the use of new technology (for example, through evidence taken from the Minister for Health and the Minister for Finance, WorkCover and the Transport Accident Commission);
 - robust infrastructure (for example, through evidence taken from the Minister for Public Transport and the Minister for Roads and Ports); and
 - services provided by the non-government sector (for example, through evidence taken from the Minister for Housing and the Minister for Victorian Communities).
- 4.9** The Committee believes that Victoria needs to continue focusing on these areas in terms of policy development and budget formulation in future while implementing the National Reform Agenda and its thrust for productivity improvement.

4.1 Introduction

As indicated in Chapter 3 of this report covering the National Reform Agenda, the advent of slowing productivity growth poses a long term challenge for Victoria.⁷⁹ The National Reform Agenda (NRA) announced by the Council of Australian Governments will contribute to growth in productivity and labour force participation. It aims to build on the gains made by the National Competition Policy agenda. The NRA provides a framework for boosting competition in the areas of transport, energy and infrastructure; reducing the regulatory burden imposed by the three levels of government; and delivering improvements to human capital.⁸⁰

⁷⁹ According to the Productivity Commission www.pc.gov.au/commission/work/productivity/primer/index.html, accessed 4 September 2007:

- productivity measures the rate at which outputs of goods and services are produced per unit of input (labour, capital, raw materials, etc). It is calculated as the ratio of the quantity of outputs produced to some measure of the quantity of inputs used; and
- depending on the context and the selection of input and output measures, productivity calculations can have different interpretations. Productivity can have connotations of minimising the use of inputs - for example, reflecting efficient production processes that minimise waste. Equally, productivity can have connotations of maximising output - reflecting the use of resources in the production of goods and services that add the most value.

⁸⁰ Commonwealth of Australia, the Treasury, *Intergenerational Report 2007, Part 1*, p.7

In terms of examining the link between productivity and economic growth, the Committee acknowledges that state governments have a critical role in sustaining economic growth over the long term. A key way in which state governments can influence the future path of economic growth is through *fostering productivity growth* by providing access to high quality education and training, encouraging innovation and creating a vibrant business environment that promotes investment and job creation.⁸¹

The Committee also noted that according to the Victorian Government's submission to the Productivity Commission's Research Study on the *Economic implications of an Ageing Australia* in November 2004:

*Improving productivity growth is likely to be the primary way in which we can help address the fiscal pressures of an ageing population. Even small gains in annual productivity growth will produce significantly higher living standards in 30 to 40 years time, increasing future capacity to pay for the higher service needs of the aged. In 'Victoria: Leading the Way' the Victorian Government outlined its commitment to securing future economic prosperity by building a competitive, innovative economy.*⁸²

Australia's productivity performance has not been consistently good according to the Treasurer, particularly compared with the United States.⁸³

In the light of the Treasurer's comments, the Committee was interested in examining material connected with the Australia's productivity in the context of understanding trends and comparisons to other countries, especially the United States. The Committee was also interested in examining trends in Victoria's productivity, growth rates in productivity and comparisons to Australia. Information accessed and subject to analysis by the Committee is set out below.

Australia's productivity – Multifactor productivity

According to the Organisation for Economic Cooperation and Development (OECD), multifactor productivity is defined as *Quantity index of combined inputs = Quantity index of (different types of) labour, capital, energy, services, each weighted with its current price share in total gross output.*⁸⁴ Multifactor productivity measurement helps disentangle the direct growth contributions of labour, capital, intermediate inputs and technology.⁸⁵ This is an important tool for reviewing past growth patterns and for assessing the potential for economic growth.⁸⁶

The Productivity Commission indicates that, in principle, multifactor productivity is a better indicator of efficiency than labour productivity. It measures how efficiently and effectively the main factors of production – labour and capital – combine to generate output.⁸⁷

⁸¹ Department of Treasury and Finance, *Shaping a Prosperous Future*, discussion paper, April 2003, p.i

⁸² Victorian Government, *Preparing for Victoria's Future Challenges and Opportunities in an Ageing Population*, November 2004, p.8

⁸³ Hon. J Brumby MP, Treasurer, 2007-08 Budget Estimates hearing, transcript of evidence, 4 May 2007, p.5

⁸⁴ OECD, *Measuring Productivity*, OECD Manual, Measurement of Aggregate and Industry-Level Productivity Growth, p.18

⁸⁵ *ibid.*, p.20

⁸⁶ *ibid.*

⁸⁷ www.pc.gov.au/commission/work/productivity/primer/measures.html, accessed 4 September 2007

In analysing information compiled by the OECD, Australia's multifactor productivity that grew by 1.5 per cent between 1990 and 1995, showed higher growth of 1.7 per cent from 1995 to 2000, but grew at a lesser rate of 1.3 per cent between 2000 and 2004.⁸⁸ Relative to the United States, the Committee observed that Australia's productivity performance in the context of multifactor productivity grew at a higher rate between 1990 and 1995 (1.5 per cent compared with 0.7 per cent) between 1995 and 2000 (1.7 per cent compared with 1.3 per cent); but in the first four years of 21st century, productivity growth fell behind that of the United States (1.3 per cent compared with 1.9 per cent).⁸⁹

A comparison of Australia's multifactor productivity growth to other OECD countries is set out below:⁹⁰

- 1990-1995 – Australia's productivity growth exceeded or was equal to 12 OECD countries and was below that of four OECD countries;
- 1995-2000 – Australia's productivity growth exceeded 15 OECD countries and was below that of four OECD countries; and
- 2000-2004 – Australia's productivity growth exceeded 12 OECD countries but was below that of seven OECD countries.

The Committee noted that between 1990 and 2004, Australia's multifactor productivity growth was well below that of Ireland and Greece and from 1995 to 2004 was well below that of Finland.⁹¹

Australia's productivity – Labour productivity growth

Labour productivity is a measure of the quantity of goods and services produced per hour of work. As labour productivity grows, higher levels of output are produced with given labour inputs. Growth in labour productivity will be the key determinant of real GDP growth in the decades ahead. Faster labour productivity growth would enable higher growth for real GDP, real GDP per person and real wages over the projection period.

In terms of examining labour productivity growth, Australia experienced strong productivity growth in the 1990s, following decades of lagging behind other major developed countries, although productivity growth has slowed somewhat this decade.⁹²

Australia's annual labour productivity growth has averaged 1.8 per cent over the past 40 years but has varied considerably from decade to decade (figure 4.1). It was above its long term average in the 1970s (2.0 per cent), slowed in the 1980s (1.2 per cent), but picked up again in the 1990s (2.1 per cent), accelerating noticeably from the middle of the decade. From 2000, however, annual labour productivity growth has slowed to around 1.5 per cent.

⁸⁸ <http://stats.oecd.org/WBOS/default.aspx?DatasetCode=MFP>, accessed 4 September 2007

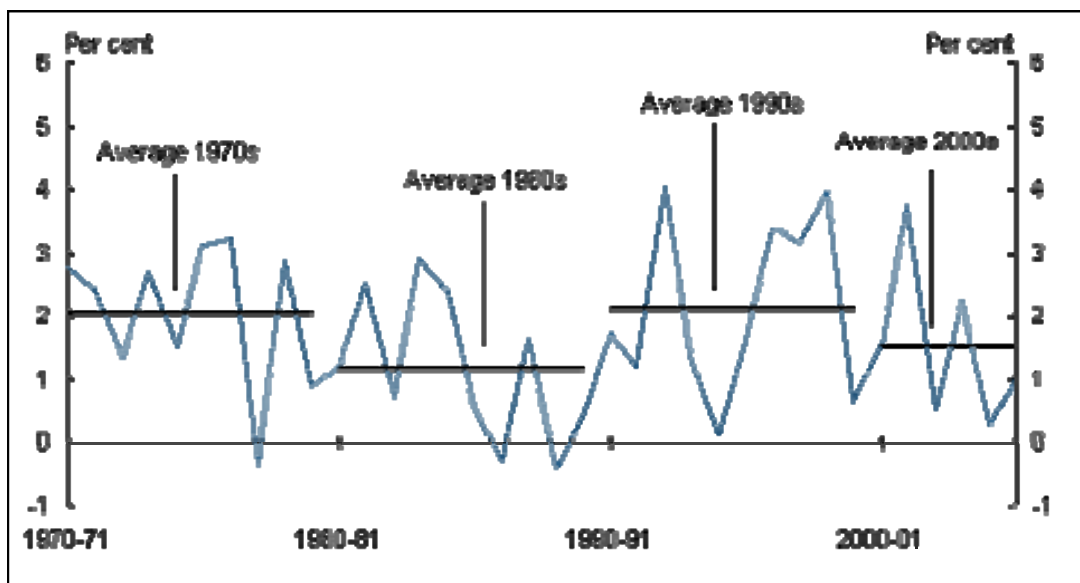
⁸⁹ *ibid.*

⁹⁰ *ibid.*

⁹¹ *ibid.*

⁹² Commonwealth of Australia, The Treasury, *Intergenerational Report 2007*, Part 1, p.28

Figure 4.1: Australia's labour productivity growth (real GDP per hour worked)

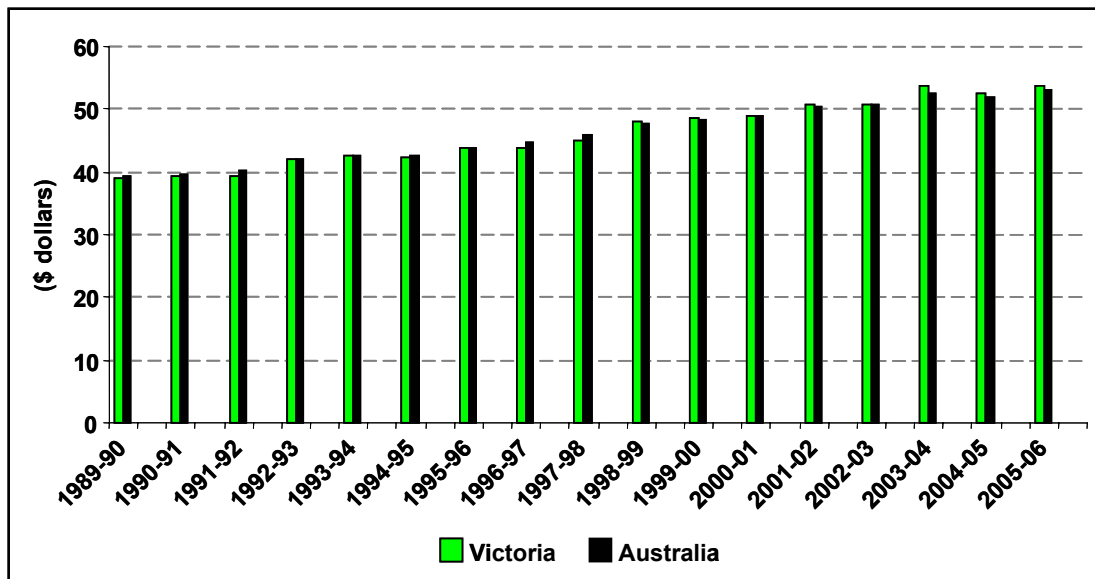


Source: Commonwealth of Australia, *The Treasury, Intergenerational Report 2007, Part 2, p.5*

Trends in Victoria's productivity and productivity growth rates and comparisons to Australia – GSP per hour worked

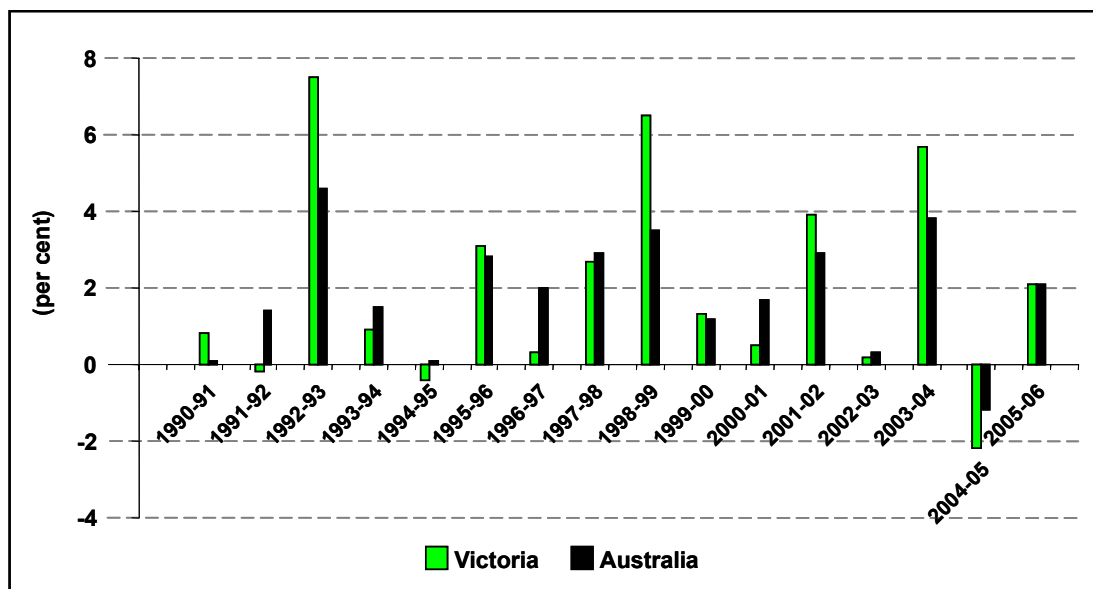
Figures 4.2 and 4.3 show that productivity in Victoria, measured in terms in terms of Gross State Product (GSP) per hour worked, improved in the vast majority of years from 1989-90 to 2005-06, a trend that has been mirrored at the national level. The Committee also noted that Victoria has been more productive than the nation as a whole in all years from 1998-99 to 2005-06 except for 2000-01. Prior to that, Victoria has been less productive than Australia from 1989-90 to 1997-98 except for 1992-93. In terms of growth rates, Victoria experienced the greatest increases in productivity in the following years – 1992-93, 1995-96, 1997-98, 1998-99, 2001-02, 2003-04 and 2005-06 with the greatest increases occurring in 1992-93, 1998-99, 2001-02 and 2003-04.

**Figure 4.2: Trends in Victorian productivity
GSP per hour worked 1989-90 to 2005-06**



Sources: Australian Bureau of Statistics (Cat.No.5220.0 and 6202.0) and Budget Paper No.3, 2007-08 Service Delivery, p.357

**Figure 4.3: Trends in growth rates in Victorian productivity
1989-90 to 2005-06**



Sources: Australian Bureau of Statistics (Cat.No.5220.0 and 6202.0) and Budget Paper No.3, 2007-08 Service Delivery, p.357

Trends in Victoria's productivity and productivity growth rates and comparisons to Australia – GSP per hour worked are shown numerically in table 4.4 below.

Table 4.4: Trends in Victoria's productivity, growth rates in productivity and comparisons to Australia GSP per hour worked – 1989-90 to 2005-06

| Year | GSP per hour worked (\$) | | Growth rates (%) | |
|---------|-----------------------------|-----------|---------------------|-----------|
| | Victoria | Australia | Victoria | Australia |
| 1989-90 | 39.0 | 39.4 | | |
| 1990-91 | 39.3 | 39.5 | 0.8 | 0.1 |
| 1991-92 | 39.2 | 40.1 | -0.2 | 1.4 |
| 1992-93 | 42.1 | 41.9 | 7.5 | 4.6 |
| 1993-94 | 42.5 | 42.6 | 0.9 | 1.5 |
| 1994-95 | 42.4 | 42.6 | -0.4 | 0.1 |
| 1995-96 | 43.7 | 43.8 | 3.1 | 2.8 |
| 1996-97 | 43.8 | 44.7 | 0.3 | 2.0 |
| 1997-98 | 44.9 | 46.0 | 2.7 | 2.9 |
| 1998-99 | 47.9 | 47.6 | 6.5 | 3.5 |
| 1999-00 | 48.5 | 48.2 | 1.3 | 1.2 |
| 2000-01 | 48.8 | 49.0 | 0.5 | 1.7 |
| 2001-02 | 50.7 | 50.5 | 3.9 | 2.9 |
| 2002-03 | 50.8 | 50.6 | 0.2 | 0.3 |
| 2003-04 | 53.7 | 52.5 | 5.7 | 3.8 |
| 2004-05 | 52.5 | 51.9 | -2.2 | -1.2 |
| 2005-06 | 53.6 | 53.0 | 2.1 | 2.1 |

Note: Chain volume measure, 2004-05 prices

Sources: Australian Bureau of Statistics (Cat.No.5220.0 and 6202.0) and Budget Paper No.3, 2007-08 Service Delivery, p.357

The relevance and contribution of the Victorian budget to statewide or sector productivity and departmental or program productivity and savings are discussed below.

4.2 Impact of the Victorian budget outlays on productivity

As part of the budget estimates hearing process, the Committee requested Ministers to explain the impact that the portfolio spend, particularly new initiatives, will have on productivity. Inquiring into initiatives that support productivity in Victoria formed a major theme of the 2007-08 Budget Estimates inquiry process. An extract from one of the budget estimates hearings demonstrates this focus where the Committee's Chair posed the following question to the Minister:⁹³

⁹³ Hon. T Holding MP, Minister for Finance, WorkCover and Transport Accident Commission, 2007-08 Budget Estimates hearing, transcript of evidence, 31 May 2007, p.4

... my focus is actually on productivity, both specifically and in general, in terms of the state. I think it is very important that we actually improve productivity. Over the last decade Australia has not had a good record in terms of productivity, so can you tell us, in terms of your portfolio (or maybe your portfolios if you like) for the next financial year, what impact do you predict the portfolio spend and policies will have on productivity, particularly new policy initiatives?

This line of questioning, which was commonplace among the various hearings held, was particularly relevant, given the significance of measures introduced at a national level that are designed to improve productivity at the state and territory level and thereby the nation's overall productivity, living standards and economic prosperity.

The Committee's analysis of the various measures taken across government portfolios to improve productivity in Victoria revealed a range of actions across the public sector. Section 4.4 sets out examples of some of the key portfolio responses per department that were provided to the Committee in this regard. While general comments about efficiency savings have been included in Chapter 2 of this report, Section 4.4 also includes examples of efficiency initiatives that relate to some of the six areas earmarked by the government as part of its *Efficient Government* policy.

Some of the examples provided by Ministers through evidence taken at the estimates hearings that demonstrate improvements in productivity in the past or potential for doing so in the future with quantifiable data are described below (further commentary and statistical analyses will be included in the Committee's sequel to this report, the *Report on the 2006-07 Budget Outcomes*, which is planned to be tabled later this financial year).

Health

Victoria has experienced growth in the number of admissions, while the total number of people on waiting lists for elective surgery is declining – the widening gap between those indicators is the productivity shown in hospitals. They are getting more resources but they are increasingly more productive. According to nationally accepted indicators, Victoria's hospitals are now the most efficient. Over the past five years, Victoria has had a lower cost per casemix adjusted separation than the Australian average. Victoria has a lower average length of stay, and emergency department performance exceeds the other states and territories as is the case with elective performance.

With regard to clinical practice improvement, in some of the most basic surgical areas, practices that used to keep people in hospital for between seven and ten days are now same day procedures in many of Victoria's hospitals. This is because of the growth in expertise, new treatment technologies and processes that have increased the effectiveness of hospitals such as the use of imaging technology.

Housing

Increasing the provision of housing options by leveraging non-government assets in partnership with housing associations has the potential to deliver between 25 and 30 per cent more housing units than could be achieved under government investment alone.

Roads and Ports

The 39 kilometre EastLink project is anticipated to generate in the vicinity of \$15 billion worth of economic activity to the state when it opens, while in relation to the Monash West Gate corridor, around \$1 billion spending will be directed at one of the state's busiest corridors and address congestion.

Police and Emergency Services

During the term of the government an additional 46 forensic staff have been engaged, and the government is committed to further increasing that by 25. Those additional staff will deal with the predicted growth in demand for DNA samples, which is expected to grow to 45,000 by 2010. With additional equipment to be acquired that can work quicker, police expect that the processing capability will be at 50,000 samples per annum by that time.

Agriculture

Broadacre farm productivity growth averaged 3.26 per cent per year between 1989 and 2004. At that rate of productivity growth, it takes only 22 years for farmers to double the output comparative to their inputs. In the grain sector, for example, where productivity has grown at 4.89 per cent per year, it takes only 15 years to double that output. Continued strong growth in farm productivity also reduces agriculture's call on the nation's resources. (In comparison, productivity growth per head for the Australian economy was 2.1 per cent a year in the decade ending 2000-01, and has averaged 1.1 per cent in the first three quarters of 2006-07).

Energy and Resources

In terms of the impact of the Victorian Initiative for Minerals and Petroleum, each dollar spent on geological data generates between \$5 and \$9 in expenditure by industry. This will support economic growth, particularly in regional Victoria.

Mining also generates significant flow-on employment with 32,000 people employed in the petroleum, coal, chemical and associated product manufacturing sector; 41,900 in metal product manufacturing; and 8,900 in non-metallic product manufacturing.

Women's Affairs

Initiatives directed at family violence and the *Safer Families* training program will assist in contributing to productivity, given that the cost of family violence to the Victorian economy is \$2 billion every year. More investment that can be directed at initiatives aimed at reducing family violence will lead to more productive people and reduce that cost to the Victorian economy.

Planning

Electronic conveyancing is a world leading initiative that brings the property conveyancing process into the e-commerce world. Additional funding of \$6 million was provided in the budget to complete the electronic conveyancing (EC) system. The EC is estimated to result in \$70 million worth of annual savings to Victorian industry and the community by 2012, which equates to a saving of \$395 per four-party settlement.

Water, Environment and Climate Change

The irrigation industry is a key economic industry for the state. The Shepparton irrigation project illustrates how productivity is improving through the budget, whereby that irrigation system will be more efficient by some 50 billion litres of water a year. That is, water that is now otherwise not used as efficiently as it might be. Assisting irrigation to be as efficient as possible is a key productivity target for the government.

Finance, WorkCover and the Transport Accident Commission

According to international and national research, the most significant productivity benefits flowing to the Australian economy over the past five to ten years have been in the technology area. Around 85 per cent of the productivity improvements in the manufacturing sector and about 78 per cent of the productivity improvements in the services sector are as a consequence of embracing new technology. According to the Minister, over the next 25 years, the greatest yield that the Australian economy will generate from improved productivity will be from the management of integration and the uptake of new technology.

Victorian Communities

A program is being funded to try and look at the productivity arrangements and the strengthening of the non-government organization (NGO) sector of the community. Funding has been provided for SCOP (Stronger Community Organisations Project), an initiative being undertaken in conjunction with individual NGOs, like VCOSS, umbrella organisations and individuals. This initiative is going to examine the complex pressures that NGOs are experiencing, for example, how their financial and organisational position and the strength of their leadership may be improved in the years ahead.

4.3 Productivity reporting improvements

The Committee noted that there was some variability in the responses by Ministers and departments to questioning on actions to improve productivity. Some answers focused on ‘macro’ or wider productivity action and impact (for example, improved skills and improved health impacts). Other responses focused on ‘micro’ impacts, such as specific program savings within portfolios or individual programs.

The Committee recognises that action at all levels is needed to improve productivity, including for example through micro-economic and structural reform in the non-government sector, without compromising the close relationship voluntary organisations have with the community.

It also recognises that major activity in regard to productivity improvement will take place at the macro level and that the improved provision of health and education services, which are the two largest sections of state government outlays, will in the long term make the biggest contribution to productivity improvement in Victoria. The Committee noted the range of proposals in these areas that are being pursued as part of the National Reform Agenda.

The Committee looks to more consistent reporting on productivity next year and will develop a more sophisticated framework in its questionnaire to elicit both efficiency measures at a departmental level that contribute to workplace productivity as well as program actions (for example, in skills development, infrastructure development for schools, roads and ports development and health management) that contribute to national and statewide productivity gains.

The Committee believes that departments should strive to develop and report more efficiency related indicators that measure productivity in order to analyse, improve and be accountable for performance on an ongoing basis. Savings generated that are directed back into programs should also be reported in annual reports. The nexus between these indicators and the various components of the National Reform Agenda (that is, the human capital, regulatory reform and competition streams) and the visions and goals of the *Growing Victoria Together* initiative as well as other key government policies should be made transparent. Such action, which would need to be consistent with COAG policy in terms of NRA measures to be developed, would promote the concept of continuous improvement across agencies and enhance accountability surrounding the implementation of micro-economic reform in this state.

The Committee recommends that:

- Recommendation 5:** A more consistent framework for addressing productivity improvements be articulated by the Department of Treasury and Finance that includes local workplace efficiency gains as well as macro-economic impacts through program initiatives.
- Recommendation 6:** The Department of Treasury and Finance explain in the budget papers how the budget strategies and associated output and asset initiatives (which extend across government agencies, the *Growing Victoria Together* vision and goals as well as other key government policies) are designed to improve Victoria's productivity and associated outcomes for the community.
- Recommendation 7:** The Department of Treasury and Finance disclose in the budget papers specific productivity targets to be achieved as a result of the introduction of budget initiatives where considered appropriate.
- Recommendation 8:** Departments disclose in the budget papers key performance measures relating to productivity by the linking of outputs to inputs.
- Recommendation 9:** The Victorian Government commission a project designed to explore potential areas in the context of micro-economic reform where opportunities exist across government agencies and the non-government sector to improve productivity. Consultation could then occur for such areas to be considered for detailed examination either internally by government departments or by the State Services Authority or the Auditor-General.
- Recommendation 10:** As the non-government sector performs a pivotal role in the delivery of services to the Victorian public, departments and non-government organisations need to continuously critically examine ways of improving productivity.
- Recommendation 11:** In order to clearly establish the link between budget outlays and productivity, departments develop an appropriate range of robust efficiency indicators for reporting in their annual reports the effectiveness of their government funded programs in terms of enhancing productivity according to the three streams of the National Reform Agenda.

- Recommendation 12:** Departments disclose in their annual reports examples of where savings generated through productivity improvement are channelled into service delivery.
- Recommendation 13:** Using the demonstrated benefits experienced in the agriculture portfolio as a benchmark, departments follow the lead in the budget, which calls for an emphasis to be placed on research and development to improve the national and international competitiveness of Victorian businesses and help foster economic growth.
- Recommendation 14:** Based on analyses of costs and benefits, governments consider investing more, both statewide and particularly federally, in infrastructure because of the contribution good infrastructure (such as public transport and roads and ports) makes to improving the growth in productivity.

4.4 Supplementary information

Table 4.5: Impact of portfolio spends on productivity

| Department/portfolio | Impact of portfolio spend including budget initiatives on productivity |
|-------------------------------------|--|
| Department of Education | |
| Education | <p>With regard to the \$555 million capital investment in Victoria's schooling system, 131 government schools will receive this funding in 2007-08 for rebuilding, modernisations or the building of totally new schools. Teaching in better facilities such as modern classrooms promotes better teaching and productivity.</p> <p>The \$249 million invested in recurrent outputs is designed to improve the art of teaching and learning. Initiatives aimed at introducing best practice in schooling, professional development and or leadership contributes to better productivity.</p> <p>There is a strong correlation between the time spent in schooling and the time people remain in the workforce and productivity.</p> |
| Department of Human Services | |
| Children | <p>Early investment in children contributes to better outcomes for those children and opportunities for them to be productive adults and contribute to the Victorian economy and community. The budget has an emphasis on early years investment, access to child care, early childhood health services, access to kindergarten programs and the important transition year into school.</p> <p>A significant deterrent for women entering the workforce is access to child care. The Victorian budget provides a number of initiatives designed to improve access to child care, such as through the provision of children's centres. Victoria has earmarked 20 new centres to be built over the next four years.</p> <p>Funding provided in the budget will establish a number of scholarships to upgrade the skills of kindergarten teachers and early childhood workers. The scholarships will assist kindergartens and childcare centres to access more highly qualified staff to continue to improve the quality and productivity of early childhood education and care services.</p> <p>Efficiency measures</p> <p>The Community Sector Investment Fund (CSIF) has commenced a number of projects that assist Community Service Organisations (CSOs) to reduce their costs: for example, it has arranged for them to access government fuel purchasing contracts.</p> <p>The CSIF has created 39 CSO Networks, providing grants of up to \$90,000 and a further \$5,000 to evaluate each one. One example is Central Hume Support Services located in Wangaratta. This network brings together Cooroonya Domestic Violence Services and Upper Hume Community Health Service, to provide increased productivity through provision of joint IT support and management, group purchasing, fleet management and administrative processes.</p> |
| Community Services | <p>In terms of disability services, a new Disability Services Commissioner is charged with the obligation of ensuring that services are provided in an efficient and effective fashion. An Office of the Senior Practitioner drills down into what the effective and appropriate treatment regime would be to ensure best practice is being applied in that sector.</p> |

Table 4.5: Impact of portfolio spends on productivity (continued)

| Department/portfolio | Impact of portfolio spend including budget initiatives on productivity |
|----------------------|---|
| Health | <p>There have been over 40 service innovations implemented in the system to ensure people are receiving the right care in the most appropriate setting and that health system funding is used efficiently. These innovations range from:</p> <ul style="list-style-type: none"> • keeping people well – early detection and referral through programs like Nurse-on-Call; • targeted programs for people with chronic disease such as the Hospital Admission Risk Program (HARP) program; • being more effective and efficient in the way services are delivered in emergency departments through things like ‘see and treat’ and short-stay units; and • greater use of IT and other enablers within the system. <p>In terms of results, Victoria has experienced growth in the number of admissions while the total number of people on waiting lists for elective surgery is declining – the widening gap between those indicators is the productivity that is shown in hospitals. They are getting more resources but they are increasingly more productive.</p> <p>According to nationally accepted indicators, Victoria’s hospitals are now the most efficient. Victoria has a lower cost per casemix adjusted separation than the Australian average, and that has been the case for the last five years. Victoria has a lower average length of stay, and emergency department performance is the best of any state and territory as is elective performance.</p> <p>Various cost reduction strategies have been introduced such as the creation of:</p> <ul style="list-style-type: none"> • Health Purchasing Victoria; • nurse banks have seen services drive down costs; and • new models of care, such as medi-hotels where people can have oversight before they have an operation, but they are not in a very high expense acute bed because that is not necessary for them at that stage in their care. <p>With regard to clinical practice improvement, in some of the most basic surgical areas, practices that used to keep people in hospital for between seven and ten days are now same day procedures in many of Victoria’s hospitals. This is because of the growth in expertise, new treatment technologies and processes that have increased the effectiveness of hospitals such as the use of imaging technology.</p> |
| Housing | <p>Specific measures have been introduced to improve the productivity of social housing. These include:</p> <ul style="list-style-type: none"> • increasing the provision of housing options by leveraging non-government assets in partnership with housing associations. This has the potential to deliver between 25 and 30 per cent more housing units than could be achieved under government investment alone; • the utilisation of Commonwealth rent assistance. Housing associations will be able to achieve more financial sustainability as they will be able to access subsidies such as Commonwealth rent assistance, albeit that this is not available to tenants who are in public housing; and • the reduction of asset maintenance liability. The disposal of older maintenance intensive properties and the replacement with new stock will have a significant impact in terms of the budget and the capacity to generate funds back into the public housing system. |

Table 4.5: Impact of portfolio spends on productivity (continued)

| Department/portfolio | Impact of portfolio spend including budget initiatives on productivity |
|-------------------------------------|--|
| Mental Health | <p>The budget has an emphasis on prevention and diversion, thereby avoiding higher downstream costs in mental health and drug treatment services. Programs that contribute to that include:</p> <ul style="list-style-type: none"> • the Youth Early Psychosis program, which is aimed at reducing disability in the longer term; • reducing the use of tertiary mental health services and other services like police; and • prevention and recovery care services, ensuring more appropriate targeting of treatment which reduces readmission rates into hospitals and downstream costs. |
| Department of Infrastructure | |
| Public Transport | <p>In terms of the workforce, if people can move more quickly from home to work and work to home, this increases productivity. Also the rail freight network and the buyback of Pacific National will impact, both in terms of the viability and sustainability of the country rail freight network, but also the links with the port are critical for the state's productivity.</p> <p>Reducing congestion on the roads and investing in public transport contributes to productivity in terms of family life and the time that people can spend with their families.</p> <p>Considering productivity in the context of improvements that can be made in the environment contributes to reductions in emissions, and that assists with broader capacity in terms of productivity across the state.</p> |
| Roads and Ports | <p>Investing in roads not only saves lives, it reduces travel times and delivers economic benefits through improvements to the freight access system.</p> <p>About 88 per cent of all public transport journeys are made on our road system. The road system makes a substantial contribution to productivity in terms of access to work and the movement of freight.</p> <p>Direct investments made by the state include the following:</p> <ul style="list-style-type: none"> • \$30 million through the congestion improvement plan to tackle some of Melbourne's biggest congestion hotspots; • \$110 million into outer metropolitan roads. These arterial roads are essentially the building blocks of the state's transport system, particularly in outer metropolitan areas, where there is a higher dependency on road based public transport than there is access to the rail based system; • the commitment of \$62.5 million to begin the first stage of stage four of the Geelong Ring Road is aimed at reducing travel times and improve the reliability of freight and people movement; • \$7.3 million for improving walking and cycling options is aimed at, not only improving productivity by reducing congestion in respect of certain parts of the network, but also providing for healthier lifestyles in terms of the community more generally; and • in terms of the more substantial ongoing investments, the 39 kilometre EastLink project, which is anticipated to generate in the vicinity of \$15 billion worth of economic activity to the state when it opens and the Monash West Gate corridor – around \$1 billion spending that will deal with one of the state's busiest corridors and address congestion. |

Table 4.5: Impact of portfolio spends on productivity (continued)

| Department/portfolio | Impact of portfolio spend including budget initiatives on productivity |
|--|--|
| Department of Innovation, Industry and Regional Development | |
| Industrial Relations | The government is looking at a \$1.2 million project for the development of an online workplace tool kit, which advises employees and employers on opportunities for parents returning to work. A more family friendly workplace is a more productive workplace. Also the government is going to amend the Equal Opportunity Act, which means that mothers, in particular, will be able to request family friendly work hours and more flexible work arrangements. These measures should also lead to productivity improvements. |
| Skills | The budget builds on the prior investment in delivering more places for apprenticeships and traineeships and the investment in TAFE capital works and new TAFE facilities. More than \$38 million has been provided to expand and equip Victorian TAFE institutes for the future. |
| Department of Justice | |
| Attorney-General | <p>The budget initiatives will create more efficient courts in the form of quicker access to justice. Less costly resolution of commercial disputes is one way the courts contribute to the economy of this state. It is not always possible to place a dollar amount on better outcomes when it comes, for example, to improved ways the justice system deals with victims of crime or victims of family violence. The budget invests \$45.3 million over four years to provide additional resources to the County and Supreme courts. That will involve reducing court delays and therefore the expenses and risks associated with lengthy delays. Lengthy delays in commercial matters, for instance, are costly for litigants. Lengthy criminal trials or lengthy delays in criminal trials can actually diminish of chances of successful prosecutions.</p> <p>Some of the IT systems have been upgraded within the courts. A single technology platform is being rolled out for Victoria's courts and tribunals, which will provide productivity benefits to consumers of court services and to court staff. For the first time, court users will be able to lodge matters at any court in the state, irrespective of the particular court or court location that the matter is to be heard in, which will involve time savings.</p> |
| Consumer Affairs | <p>In terms of an expansion of our face to face services, there has been an expansion of the regional office network involving five principal offices and two sub-offices, as well as the outreach work, which have been an important part of delivering better and improved outcomes to Victorian consumers.</p> <p>Online services have expanded in recent years.</p> <p>The number of visitor sessions to the Consumer Affairs Victoria website and other associated linked websites has grown by 25 per cent each year since 2003. This represents an easy and convenient way for Victorian consumers to access information, but it is also of relevance in terms of making best use of staffing time and the staffing budget. It saves time and delivers high quality outcomes.</p> <p>Other areas where budget spends have impacted on productivity include the following:</p> <ul style="list-style-type: none"> • the case management system for a range of complaints; and • efficiency gains have enabled staff to service various Acts of Parliament. |

Table 4.5: Impact of portfolio spends on productivity (continued)

| Department/portfolio | Impact of portfolio spend including budget initiatives on productivity |
|-------------------------------|--|
| Gaming | <p>In October last year, the \$132.3 million <i>Taking Action on Problem Gambling</i> statement was launched by the Victorian Government. This is a fully funded five year plan to 2010–11. As part of this initiative, \$4.3 million has been provided over five years to allow a centralised booking system and the associated IT case management functionality. The practical impact of that is that when a caller contacts the gamblers helpline, they will be able to make a direct appointment at that point of time. That is obviously about efficiency – getting a quicker response – so that those who are in crisis or need urgent care and need that sort of support quickly can obtain it.</p> <p>The centre for excellence in problem gambling research and treatment will commence in July this year as part of <i>Taking Action on Problem Gambling</i> initiative. More than \$4 million has been committed to that joint venture between Monash University and the University of Melbourne in terms of driving better research and other efficiencies in terms of treatment services.</p> |
| Police and Emergency Services | <p>During the term of the government an additional 46 forensic staff have been engaged, and the government is committed to further increasing that by 25. Those additional staff will deal with the predicted growth in demand for DNA samples, which is expected to grow to 45,000 by 2010. With additional equipment to be acquired that can work quicker, police expect that the processing capability will be at 50,000 samples per annum by that time.</p> <p>Through the use of I-face and the laptops initiatives, instead of using mug books, the use of facial recognition will enable identification to occur a lot quicker.</p> <p>Additional police cars and the building of police stations will make a difference in enabling police to respond and more effectively meet the community’s needs.</p> <p>A major project is underway within the organisation to examine the face of a computer system and the simplification of data. Some systems are being trialled at the moment to enable the input of the data to be performed more efficiently. While there is a need for greater data collection, this has to be balanced with the members who want to be in the field. A traffic information system has been initiated, which despite experiencing some problems, is being streamlined with a view to reducing the paperwork to ensure people are allowed to be out doing the job that is expected of them.</p> |
| Racing | <p>The government has committed \$20.6 million to the racing industry development program, which will provide major capital works at racing venues. This will mean that those racing venues will be able to operate on a year round basis. The ThoroughTrack program, which is a synthetic racing surface, is being put in at Geelong, which means Geelong will be able to race all year round, which will improve productivity. Funding has also been provided to certain country tracks and upgrading facilities will improve the amenity for people who elect to go to the races.</p> |

Table 4.5: Impact of portfolio spends on productivity (continued)

| Department/portfolio | Impact of portfolio spend including budget initiatives on productivity |
|--|---|
| Department of Premier and Cabinet | |
| Premier's | <p>Productivity efficiency within the Department of Premier and Cabinet will be in the areas of buying smarter, group purchasing, whole of government efforts to purchase and obtaining a better rate because of that. Treasury and Premiers have pursued common corporate services for some time. This could be taken further to look at effective purchasing, reducing the on-costs and making a saving which could be put back into programs.</p> <p>The Government Services Group will be working with the department to identify and implement efficiencies and innovations relating to procurement and shared services. There are a lot of savings to be made by e-procurement.</p> <p>In other areas, efficiencies will include less expenditure in consultancies.</p> <p>Future growth and staff has also been limited. In this budget, head office staff growth across departments has been limited to a 1 per cent growth target. It is growing at about 2 per cent.</p> |
| Department of Primary Industries | |
| Agriculture | <p>Agricultural productivity has exhibited strong growth over the last few decades, and this has been at a rate more than double that achieved by other market sectors. Productivity growth is essential to the agricultural sector and has accounted for the entire increase in agricultural output by the sector over this period.</p> <p>The broadacre farm productivity growth averaged 3.26 per cent per year between 1989 and 2004. At this rate of productivity growth, it takes only 22 years for farmers to double the output comparative to their inputs. In the grain sector, for example, where productivity has grown at 4.89 per cent per year, it takes only 15 years to double that output. Continued strong growth in farm productivity also reduces agriculture's call on the nation's resources. (In comparison, productivity growth per head for the Australian economy was 2.1 per cent a year in the decade ending 2000-01, and has averaged 1.1 per cent in the first three quarters of 2006-07).</p> <p>Much of the government's innovation efforts from an agricultural perspective have been focused on research and development and extension. The Department of Primary Industries will continue its targeted investment in research and development and related investment. The \$180 million biosciences research centre at La Trobe University is a significant driver for the department's involvement in producing productivity for the sector and injecting that research and development into the sector.</p> <p>The agriculture sector is prepared to take up innovation, and research and development, and the department, through its science initiative and research and development initiatives, contributes to that sector having available to it the innovation that it needs to drive forward.</p> <p>For the agricultural sector to still be in the strong position that it is in terms of trade, for example, and in terms of exports, it can only achieve that through significant productivity growth.</p> |
| Energy and Resources | <p>In terms of the impact of the Victorian Initiative for Minerals and Petroleum, each dollar spent on geological data generates between \$5 and \$9 in expenditure by industry. This will support economic growth, particularly in regional Victoria.</p> <p>Mining also generates significant flow-on employment with 32,000 people employed in the petroleum, coal, chemical and associated product manufacturing sector; 41,900 in metal product manufacturing; and 8,900 in non-metallic product manufacturing.</p> |

Table 4.5: Impact of portfolio spends on productivity (continued)

| Department/portfolio | Impact of portfolio spend including budget initiatives on productivity |
|---|--|
| Department of Sustainability and Environment | |
| Planning | <p>With regard to the work being done in planning as part of Melbourne 2030 and the impact on productivity across the state, building (domestic, commercial or industrial) is a key driver for employment and the state of the economy. By speeding up the process, efficiencies can be delivered, for example, by cutting red tape. If we can cut red tape, we can deliver efficiencies in the planning permit application process. If projects can get off the ground sooner, it means there is an opportunity for increased growth in the economy and more jobs to go with it.</p> <p>Electronic conveyancing is a world leading initiative that brings the property conveyancing process into the e-commerce world. Additional funding of \$6 million was provided in the budget to complete the electronic conveyancing (EC) system. The EC is estimated to result in \$70 million worth of annual savings to Victorian industry and the community by 2012, which equates to a saving of \$395 per four-party settlement.</p> |
| Water, Environment and Climate Change | <p>Being more efficient with the way resources are used is a key objective that is better for the environment and it is also better for the community and boosts productivity.</p> <p>In terms of the environment portfolio, the key productivity issue is resource efficiency – that is, using resources in the most efficient manner so that their value is maximised, the negative impact on the environment is reduced and people’s lifestyles are improved.</p> <p>The irrigation industry is a key economic industry for the state. The Shepparton irrigation project represents a good example of how productivity is improving through the budget, whereby that irrigation system will be more efficient by some 50 billion litres of water a year. That is, water that is now otherwise not used as efficiently as it might be. Assisting irrigation to be as efficient as possible is a key productivity target for the government.</p> <p>Another important example in agriculture is salinity and the work undertaken on salinity programs. By reducing the impact of salinity as well as looking after the land, land is able to be used more productively, which is another productivity benefit.</p> <p>In terms of water use generally, productivity is going to be assisted by more efficient water use, which means not wasting water and reusing water. The budget continues the government’s policy of water conservation and recycling. Examples of recycling include the recent major recycling project with BlueScope Steel at Hastings, and also projects with Qenos, Australian Vinyls and other companies which are able to become more efficient by utilising their water in a more efficient manner. That is another productivity benefit. Another important example is the requirement, which receives budget backing for all industry that uses more than 10 gigalitres a year, to have a water conservation plan. In many cases, industry has not to date given sufficient emphasis to having a water saving plan (big industry has – the top 200 have all done it – but the next 1300 fall into this category). By working with industry to have water saving plans is another way that productivity can be improved.</p> <p>Energy efficiency is one of the major resource efficiency measures that should be targeted. An example of this is CarbonDown, which is a program working with business to reduce their energy use and become more energy efficient.</p> |

Table 4.5: Impact of portfolio spends on productivity (continued)

| Department/portfolio | Impact of portfolio spend including budget initiatives on productivity |
|--|---|
| Department of Treasury and Finance | |
| Finance, WorkCover and the Transport Accident Commission | <p>There is well over \$600 million in savings accruing to government over the next four years from efficient government measures, and many of those things relate to productivity related enhancements in the way the Victorian government does business – so, for example, the way car fleet is managed and the way in which our purchasing arrangements are managed. The state purchasing contracts are a significant part of that.</p> <p>The ICT area is an area where particular productivity dividends can be achieved. International and national research shows that the most significant productivity benefits that have been generated to the Australian economy over the past five to ten years have been in the technology area. In fact, around 85 per cent of the productivity improvements in the manufacturing sector are as a consequence of the uptake of new technology. About 78 per cent of the productivity improvements in the services sector are a consequence of the embracing of new technology. Going forward over the next 25 years, the greatest yield that the Australian economy will generate from improved productivity is not from changing the workplace relationships and changing the industrial relations laws in Australia, but is actually from the way in which the integration and the uptake of new technology is managed.</p> <p>Looking across the Victorian public sector, from an ICT perspective there are a significant number of projects under way, some of which have been funded in the latest budget, which will have a significant impact on productivity. For example, the VicSmart and ultranet projects within the Department of Education – a \$61 million commitment to the ultranet in the current budget⁹⁴ – are tools not only for parents and for students but also tools for principals and teachers and the school environment, which will improve productivity in the education sector. As mentioned earlier, the electronic conveyancing work is a significant investment – a \$6 million investment by the state government in this budget. This project which will deliver significant dividends to those who purchase or sell property. It is a more efficient and streamlined system – a paperless system in a way – which will deliver productivity improvements.</p> |

⁹⁴ The Ultranet is an intuitive student-centred electronic learning environment that supports high quality learning and teaching, connects students, teachers and parents and enables efficient knowledge transfer. The Ultranet will help to improve student learning, support the work of teachers, enable DoE to better support Victorian Government schools and enhance active partnerships with parents. The Ultranet will provide a complete online learning environment in which parents, students and teachers can create, access and share curriculum content, collaborate in learning activities and record progress against individual learning plans/goals.

Table 4.5: Impact of portfolio spends on productivity (continued)

| Department/portfolio | Impact of portfolio spend including budget initiatives on productivity |
|---|---|
| Treasury | <p>In terms of this budget, the investment in skills; the investment in preventative health programs, diabetes; the investment in capital works – all of these things will drive a stronger economy and productivity growth.</p> <p>According to most economists, there are two major roadblocks in the Australian economy. One of those is lack of investment in productive capital; the second is the skill shortage. In both of these areas, Victoria is taking the national leadership position in tackling these problems. Victoria was the first state to significantly increase the state's spend on capital works – this is being done again in this budget – and in the 2006 calendar year, more apprentices and trainees were trained in Victoria than in any other state in Australia, including New South Wales, which has nearly 2 million more people than Victoria.</p> <p>The other element of this budget is regulation reform, where Victoria is making strong progress.</p> <p>In addition, the tax cuts introduced in Victoria will drive a more efficient economy, which means increases in productivity growth.</p> |
| Department for Victorian Communities | |
| Aged Care | <p>One of the biggest issues confronting the Australian and the Victorian economy in the future is the ageing of our population. The Victorian government is examining ways to encourage the participation of older people, not only back into the workforce, but also more broadly into our community.</p> <p>The portfolio is contributing to the productivity of the Victorian economy through initiatives to encourage seniors' participation in the Victorian workforce and in the community.</p> <p>In the past decade there has been a significant increase in mature aged workforce participation in Victoria. In fact, participation rates increased from 59 per cent to 68 per cent for those aged 55 to 64. The government is pleased with this progress and increased productivity.</p> <p>In the 2006 Victorian election policy a new program, 'Experience Counts' was announced which will focus on retaining and skills development for at least 700 recently retired people who wish to re-enter the workforce. \$4 million has been committed to implement this program between 2007-08 and 2010-11. Department for Victorian Communities, Employment Programs Division will be leading this initiative.</p> <p>Current efforts on mature aged workers participation follow the recently completed Office of Senior Victorians' funded Victorian Employers' Chamber of Commerce and Industry (VECCI) initiative, <i>Grey Matters</i>. <i>Grey Matters</i> was an awareness raising campaign providing small and medium size business with key messages about skills shortages. As part of the project, an information package was distributed, which provides advice to employers about retaining, retraining and employing mature workers.</p> <p>In March 2006 the Premier, Hon. S Bracks launched Maintaining the Advantage; Skilled Victorians Package, which included targeting an additional 1,800 vocational education and training places for Victorians aged 35 to 64 years without year 12 or its equivalent.</p> <p>The Victorians Senior Card supports businesses who sponsor the Card through directories and publications. The card provides discounts on many goods and services. Amongst its many benefits, Seniors Card provides free public transport on Sundays and two free travel vouchers per year – encouraging seniors to get out and about.</p> |

Table 4.5: Impact of portfolio spends on productivity (continued)

| Department/portfolio | Impact of portfolio spend including budget initiatives on productivity |
|-----------------------|---|
| Employment | A number of initiatives target key groups in the community who need some assistance in getting back into the workforce. Increasing workforce participation for people, such as those with a disability or mature age workers, leads to a more skilled labour industry and business that will continue to drive economic prosperity and productivity. Also, the continuation of the skilled and business migration program contributes to Victoria's economy and productivity in terms of the numbers attracted into the workforce and the skill areas developed. |
| Victorian Communities | The bulk of our expenditure is through grants, so we do not directly deliver the service but we provide and facilitate the expenditure around programs by other agencies. But we do not take their productivity for granted. For example, a program is being funded to try and look at the productivity arrangements and the strengthening of the non-government organization (NGO) sector of the community. Funding has been provided for SCOP (Stronger Community Organisations Project), an initiative being undertaken in conjunction with individual NGOs, like VCOSS, umbrella organisations and individuals. This initiative is going to examine the complex pressures that NGOs are experiencing, for example, how their financial and organisational position and the strength of their leadership may be improved in the years ahead. The group is expected to report later this year. It is hoped that recommendations may be made about a strategic vision for the sector, including initiatives for the government, businesses and the community sector and how they might work better together. |
| Women's Affairs | Initiatives directed at family violence and the <i>Safer Families</i> training program will assist in contributing to productivity, given that the cost of family violence to the Victorian economy is \$2 billion every year. More investment that can be directed at initiatives aimed at reducing family violence will lead to more productive people and reduce that cost to the Victorian economy. |

Sources: Ms L Neville MP, Minister for Aged Care, response to the Committee's questions on notice, p.2; Mr J Lenders MLC, Minister for Education, 2007-08 Budget Estimates hearing, transcript of evidence, 9 May 2007, p.5; Ms J Allan MP, Minister for Skills, Education Services, Employment and Women's Affairs, 2007-08 Budget Estimates hearing, transcript of evidence, 7 May 2007, pp.3-4; Mr G Jennings MLC, Minister for Community Services, 2007-08 Budget Estimates hearing, transcript of evidence, 10 May 2007, pp.4-5; Hon. B Pike MP, Minister for Health, 2007-08 Budget Estimates hearing, transcript of evidence, 8 May 2007, pp.3-5; Ms L Neville MP, Minister for Mental Health, 2007-08 Budget Estimates hearing, transcript of evidence, 14 May 2007, p.4; Ms L Neville MP, Minister for Children, response to the Committee's questions on notice, received 29 June 2007; Mr R Wynne MP, Minister for Housing, 2007-08 Budget Estimates hearing, transcript of evidence, 17 May 2007, p.4; Hon. L Kosky MP, Minister for Public Transport, 2007-08 Budget Estimates hearings, transcript of evidence, 9 May 2007, pp.4-5; Mr T Pallas MP, Minister for Roads and Ports, 2007-08 Budget Estimates hearing, transcript of evidence, 10 May 2007, pp.4-6; Hon. R Hulls MP, Attorney-General, 2007-08 Budget Estimates hearing, transcript of evidence, 30 May 2007, pp.3-4; Mr D Andrews MP, Minister for Consumer Affairs, 2007-08 Budget Estimates hearing, transcript of evidence, 30 May 2007, pp.3-5; Hon. B Cameron MP, Minister for Police and Emergency Services, 2007-08 Budget Estimates hearing, transcript of evidence, 11 May 2007, pp.4-5; Hon. S Bracks MP, Premier, 2007-08 Budget Estimates hearing, transcript of evidence, 3 May 2007, pp.15-16; Mr J Helper MP, Minister for Agriculture, 2007-08 Budget Estimates hearings, transcript of evidence, 17 May 2007, pp.4-5; Hon. P Batchelor MP, Minister for Energy and Resources, response to the Committee's questions on notice, pp.2-3; Hon. J Madden MLC, Minister for Planning, 2007-08 Budget Estimates hearing, transcript of evidence, 29 May 2007, p.4; Hon. J Thwaites MP, Minister for Water, Environment and Climate Change, 2007-08 Budget Estimates hearing, transcript of evidence, 15 May 2007, p.4; Hon. J Brumby MP, Treasurer, 2007-08 Budget Estimates hearing, transcript of evidence, 4 May 2007, p.5; Hon. T Holding MP, Minister for Finance, WorkCover and Transport Accident Commission, 2007-08 Budget Estimates hearing, transcript of evidence, 31 May 2007, pp.4-5; Hon. P Batchelor MP, Minister for Victorian Communities, 2007-08 Budget Estimates hearing, transcript of evidence, 16 May 2007, p.4

CHAPTER 5: DEPARTMENTAL ASSET INVESTMENT

Key findings of the Committee:

- 5.1 The Committee is of the view that there is a need for the Department of Treasury and Finance to disclose in the papers how the Total Estimated Investment is determined over the forward estimates period and beyond and its reconciliation to the application of cash resources.
- 5.2 The Committee considers appropriate focus needs to be placed, by water authorities and the department, on reporting on progress with water infrastructure projects to ensure that commensurate attention is given to this expanding area of operation.
- 5.3 The Committee noted that the Treasurer highlighted in the budget that, in addition to the \$16 billion invested in capital works since 1999, the government will invest a further \$13 billion over the next four years.
- 5.4 The Committee found that, while there has been a significant increase in the percentage of net investment in fixed assets to gross state product from 1999-00 to 2007-08, the major increase occurred in 2006-07.
- 5.5 The significant acceleration in the government's asset investment program, by 43 per cent on average over previous years, presents an opportunity for re-evaluation of improvements in disclosure in annual reports and for reassessments confirming net benefits derived from built assets. The Committee will be looking to ensure continual improvements in reporting on these matters in the future.
- 5.6 In the Committee's opinion, the effectiveness and adequacy of education expenditure should be monitored to ensure that fairness of education opportunity is achieved in a balanced manner. Equality of opportunity should ensure that the more disadvantaged areas of Victoria receive appropriate support for their educational needs.

5.1 Trend analysis of net investment on fixed assets as a percentage of gross state product

Table 5.1 shows that while there has been a significant increase in the net investment in fixed assets expressed as a percentage of gross state product since 1999-00, the main increase between 1999-00 and 2007-08 occurred in 2006-07.

Table 5.1: Net investment on fixed assets as a percentage of gross state product

| | 1998-99 (\$ million) | 1999-00 (\$ million) | 2000-01 (\$ million) | 2001-02 (\$ million) | 2002-03 (\$ million) | 2003-04 (\$ million) | 2004-05 (\$ million) | 2005-06 (\$ million) | 2006-07 (\$ million) | 2007-08 (\$ million) |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Total net investment in fixed assets (actual) | 1,446.6 | 1,466.2 | 1,796.6 | 2,087.2 | 2,109.6 | 2,378.4 | 2,373.3 | 2,691.5 | (a) 3,416.8 | (a) 3,621.7 |
| Gross State Product (c) | 152,994.0 | 162,575.0 | 172,995.0 | 185,085.0 | 196,023.0 | 211,944.0 | 222,221.0 | 233,320.0 | (b) 239,736.0 | (b) 247,528.0 |
| Total net investment in fixed assets as a percentage of Gross State Product | 0.95 | 0.90 | 1.04 | 1.13 | 1.08 | 1.12 | 1.07 | 1.15 | 1.43 | 1.46 |

- Notes:
- (a) the total net investment in fixed assets for 2006-07 and 2007-08 are derived from the revised and budget figures shown in Budget Paper No.2, p.45
 - (b) the Gross State Product figure for 2006-07 and 2007-08 has been calculated by the Committee using the forecast increase identified in Budget Paper No.2, Strategy and Outlook 2007-08, p.16
 - (c) Gross State Product is the total market value of goods and services produced in a state or territory within a given period, after deducting the cost of goods and services used up in the process of production, but before deducting allowances for the consumption of fixed capital. Thus gross state product, as defined here, is 'at market prices'

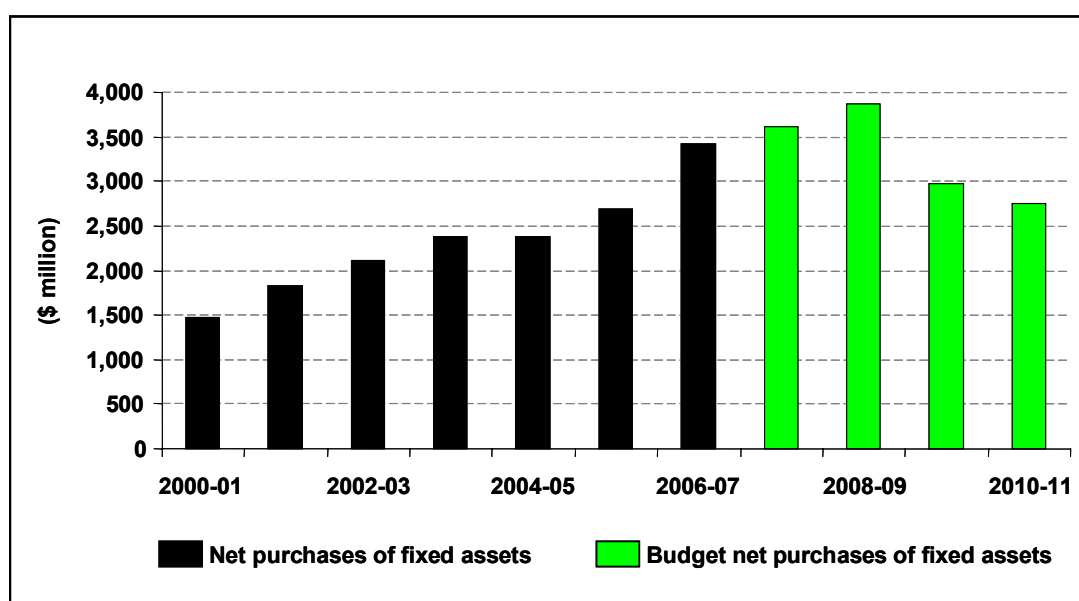
Sources: Australian Bureau of Statistics, Australian National Accounts State Accounts 5220.0 2005-06, p.14, 1999-00 to 2005-06 Financial Reports for the State of Victoria and 2007-08 Budget Papers

5.2 Asset investment provisions within the 2007-08 Budget Estimates

The budget speech, delivered to the Parliament on 1 May 2007, identified the significant reduction, since 1999, of the net financial liabilities of the state as the catalyst to the enhanced financial capacity of the government to make critical investments in human capital and infrastructure. The Treasurer highlighted that, in addition to the \$16 billion invested in capital works since 1999, the government will invest a further \$13 billion over the next four years.⁹⁵

Figure 5.2 details the government's asset investment program for the period 2000-01 to 2006-07, and the proposed program covering the forward estimates period 2007-08 to 2010-11.

Figure 5.2: Government asset investment program 2000-01 to 2010-11



Source: Budget Paper No.2, 2007-08 Strategy and Outlook, p.5

The Treasurer indicated that, while in the past average annual expenditure averaged \$2.3 billion a year, it is expected to average \$3.3 billion a year over the forward estimates period, a 43 per cent increase. This totals in excess of \$13 billion over the next four year period.⁹⁶ Additionally, net infrastructure investment is expected to exceed estimated depreciation by an average of around \$1.7 billion a year and is expected to grow the state's real capital stock by 7.9 per cent over the four years to June 2011.⁹⁷ Of this \$13 billion asset investment program, around 60 per cent will be financed from cash operating surpluses with the remainder being financed by borrowings.⁹⁸ Additionally, a potential exists for additional expenditure to be incurred from a pool of unallocated funds, which can be distributed to specific departments and projects for the purchase of property, plant and equipment.⁹⁹ Budget Information Paper No.1 covering the 2007-08 Public Sector Asset

⁹⁵ Budget Paper No.1, 2007-08 Treasurer's Speech, p.3

⁹⁶ Budget Paper No.2, 2007-08 Strategy and Outlook, p.5

⁹⁷ *ibid.*, p.6

⁹⁸ *ibid.*, p.47

⁹⁹ Budget Paper No.4, 2007-08 Statement of Finances, p.49

Investment Program, which will be released later this year, will contain relevant information concerning this issue. Amounts available to be allocated include the following forward estimates:¹⁰⁰

- 2007-08 budget (\$182.1 million) – the budget includes an allowance for departmental underspending in 2007-08, which may be subject to carryover in 2008-09; and
- estimates for 2008-09, 2009-10 and 2010-11 amounting to \$337.0 million, \$605.8 million and \$866.5 million respectively.

At the estimates hearing the Committee sought clarification from the Treasurer about reconciling the *Unallocated provision for future allocation* contained in the budget papers totalling \$1.6 billion (estimates of \$263 million for 2008-09, \$532.3 million for 2009-10 and \$815.9 million for 2010-11)¹⁰¹ and the Treasurer's statement that the Total Estimated Investment (TEI) which is fully funded in future budgets is \$2.9 billion.¹⁰² The Committee also inquired as to whether any component of the \$2.9 billion allocation will extend into the next term of government.¹⁰³

The Treasurer explained that the amount totalling \$1.6 billion represents the first year cash of the TEI (that is, the cash available for the first year spend¹⁰⁴) and, according to convention, the rule applied by Treasury is that when looking at a capital provision, on average, 28 per cent is allocated in the first, second and third years and 16 per cent in the fourth year. Although this varies from project to project, the use of this formula based on previous budget practice results in an amount of \$2.9 billion to be funded in future budgets¹⁰⁵, including relevant outyears. The Treasurer advised the Committee that this practice of calculating the TEI has been in operation for more than ten years.¹⁰⁶

A reconciliation between the \$1.6 billion cash available in the first year and the \$2.9 billion TEI over the forward estimates period is shown below, based on information provided by the Treasurer in response to a question taken on notice:¹⁰⁷

During each budget process, the unallocated capital contingency is reduced as ERC approves capital expenditure and allocated funds to departments.

*Following the 2007-08 budget process, the available unallocated contingency for 2008-09 was \$263 million, for 2009-10 it was \$532.3 million and for 2010-11 it was \$815.9 million – this amounts to **\$1.6 billion of cash flow** over the forward estimates period (this is shown on page 45 of Budget Paper No.2).*

The Total Estimated Investment (TEI) associated with each year of available unallocated capital contingency is based on the average expenditure profile of capital projects over recent years and assumes the following pattern of expenditure:

¹⁰⁰ *ibid.*

¹⁰¹ Budget Paper No.2, *2007-08 Strategy and Outlook*, p.45

¹⁰² Hon. J Brumby MP, Treasurer, 2007-08 Budget Estimates hearing, transcript of evidence, 4 May 2007, p.7

¹⁰³ *ibid.*

¹⁰⁴ *ibid.*, p.18

¹⁰⁵ *ibid.*, pp.6–7

¹⁰⁶ *ibid.*, p.7

¹⁰⁷ Hon. J Brumby MP, Treasurer, response to the Committee's question on notice, received 11 July 2007, p.3

- Year One 28 per cent
- Year Two 28 per cent
- Year Three 28 per cent
- Year Four 16 per cent

Using the historical spend profile, this corresponds to an indicative **announceable TEI totalling \$2.9 billion** over the forward estimates period:

- (a) \$939 million in 2008-09 (that is, \$263 million¹⁰⁸ divided by 0.28)
- (b) \$962 million in 2009-10 (that is, \$532.3 million¹⁰⁹ less \$263 million¹¹⁰ = \$269 million, divided by 0.28)
- (c) \$1,013 million in 2010-11 (that is, \$815.9 million¹¹¹ less \$263 million¹¹² less \$269 million¹¹³ = \$284 million divided by 0.28)

This approach has been consistently applied by the Department of Treasury and Finance for at least the last decade.

The Committee noted that on the basis of average expenditure profiles for capital projects, new projects commence each year with a pattern of expenditure of 28 per cent, 28 per cent, 28 per cent and 16 per cent over four years respectively. This means that projects that commence in 2008-09 (the first year of the forward estimates) will on average incur Total Estimated Investment (TEI) over four years to 2011-12 in line with these percentages with 16 per cent of the TEI being incurred in the first year outside the forward estimates period that is, in 2011-12. It is assumed for the purpose of calculating the TEI over the four years, that the cash available in the first year spend will represent 28 per cent of the TEI which will be incurred over a four year period. It is for this reason that the TEI extends beyond the forward estimates period of 2007-08 to 2010-11 for new projects that commence in each year of the forward estimates for example, unallocated cash flow identified in the last year of the forward estimates of 2010-11 for new projects commenced in that year will represent 28 per cent of the TEI to 2013-14. It is for this reason that the TEI of \$2.9 billion over the forward estimates period is significantly greater than the \$1.6 billion cash flow. The difference between the cash flow of \$1.6 billion and the TEI totalling \$2.9 billion represents the difference between the cash available in the first year of new projects and their TEI over a four year period, which may extend beyond the current forward estimates period. Due to the long term nature of capital spending, there will always be TEI that extends beyond the forward estimates period and it would be misleading to consider the difference between this and cash to represent a shortfall in funding in any one budget. Financing decisions in the relevant outyears for the TEI associated with each year of available unallocated capital contingency will depend on the various funding options that will be available to be considered in future years.¹¹⁴

The Committee considers that to enhance transparency and accountability surrounding budget presentation, the budget papers should contain an explanation of how the TEI is determined over the forward estimates period and beyond and its reconciliation to the application of cash resources.

¹⁰⁸ Refer table 3.5 in Budget Paper No.2, 2007-08 Strategy and Outlook, p.45

¹⁰⁹ *ibid.*

¹¹⁰ Equals the second year cash flow of the \$939 million TEI based on use of the historical spend profile

¹¹¹ Refer table 3.5 in Budget Paper No.2, 2007-08 Strategy and Outlook, p.45

¹¹² Equals the third year cash flow of the \$939 million TEI based on use of the historical spend profile

¹¹³ Equals the second year cash flow of the \$962 million TEI based on use of the historical spend profile

¹¹⁴ Hon. J Brumby MP, Treasurer, 2007-08 Budget Estimates hearing, transcript of evidence, 4 May 2007, p.8

Table 5.3: Departmental Asset Investments for funding during 2007-08 (continued)

| Department | Project title | 2007-08 budget (\$ million) | Total (\$ million) |
|---|--|-----------------------------|--------------------|
| Department of Innovation, Industry and Regional Development | South West Institute of TAFE – Warrnambool Stage 3 | 8 | 16 |
| | Swinburne University – Wantirna Sustainability and Land Management | 5 | |
| | Various other projects | 3 | |
| | City of Literature – centre for books and ideas | 6 | |
| | Various other projects | 18 | |
| Department of Justice | Melbourne Legal Precinct Master Plan | 15 | 123 |
| | Justice Statement – Integrated Courts Management System | 11 | |
| | Police Stations (Metropolitan and regional) | 33 | |
| | Law Enforcement data System | 8 | |
| | Various Other projects | 56 | |
| Department of Premier and Cabinet | Melbourne Recital Centre and Melbourne Theatre Company | 55 | 79 |
| Department of Primary Industries | Melbourne Wholesale Market Redevelopment | 32 | 57 |
| | New Biosciences research centre | 10 | |
| | Various other projects | 15 | |
| Department of Sustainability and Environment | Wimmera-Mallee Pipeline (Commonwealth and State) | 83 | 288 |
| | Goldfields Superpipe (Bendigo Interconnection) | 33 | |
| | Water Recycling for Melbourne (Shepparton Irrigation Area) | 12 | |
| | Sustainable Management of Victoria's Parks | 13 | |
| | Footscray Transit Cities | 10 | |
| | Various other projects | 137 | |
| Department of Treasury and Finance | Standard Corporate ICT Infrastructure Strategy | 4 | 14 |
| | Intra-government secured network | 4 | |
| | Various other projects | 6 | |
| Department for Victorian Communities | Rectangular Sports Stadium | 78 | 81 |
| | Various other projects | 3 | |
| Total | | | 2,869 |

Sources: Responses to the Committee's 2007-08 Budget Estimates questionnaire: Parliamentary departments p.10, Department of Education p.15, Department of Human Services pp.21–22, Department of Infrastructure pp.18–22, Department of Innovation, Industry and Regional Development p.22, Department of Justice pp.25–26, Department of Premier and Cabinet p.15, Department of Primary Industries p.17, Department of Sustainability and Environment pp.25–26, Department of Treasury and Finance pp.15–16, Department for Victorian Communities pp.13–14

5.4 Asset Investment Observations

The Committee noted that net infrastructure investment is projected to reach a record \$3.6 billion in 2007-08¹¹⁵ (this figure includes net contributions to other sectors of government¹¹⁶ such as water authorities). In relation to new projects, the 2007-08 budget provides funding for new asset investment projects with a total estimated investment of \$2.9 billion¹¹⁷, some of which extend over four years based on a notional average expenditure profile of capital projects over recent years and assuming the following pattern of expenditure – 28 per cent in year one; 28 per cent in year two; 28 per cent in year three; and 16 per cent in year four.

Asset investments on new and ongoing capital projects across all 10 departments and the parliamentary departments are estimated to cost \$2,869 million in 2007-08. Of this expenditure, \$1,543 million (53.8 per cent) has been allocated to the Department of Infrastructure, with \$429 million (15 per cent) to the Department of Human Services, \$288 million (10 per cent) to the Department of Sustainability and Environment, and \$238 million (8.3 per cent) to the Department of Education. The remaining \$371 million (12.9 per cent) is distributed amongst the other seven departments. Those four departments are considered ones with the larger infrastructure asset delivery imperatives to satisfy *Growing Victoria Together* (GVT) objectives.

The nature and scale of asset investment programs, and of individual projects, to be undertaken depend on departmental responsibilities in the delivery of services to meet projected community needs. Certain types of infrastructure, such as transport networks, water projects and health services facilities are more capital intensive.

The Committee offers the following comments on the four departments.

5.4.1 Department of Infrastructure

The budgeted expenditure of the Department of Infrastructure of \$1.5 billion includes the VicRoads programs totalling \$880 million.

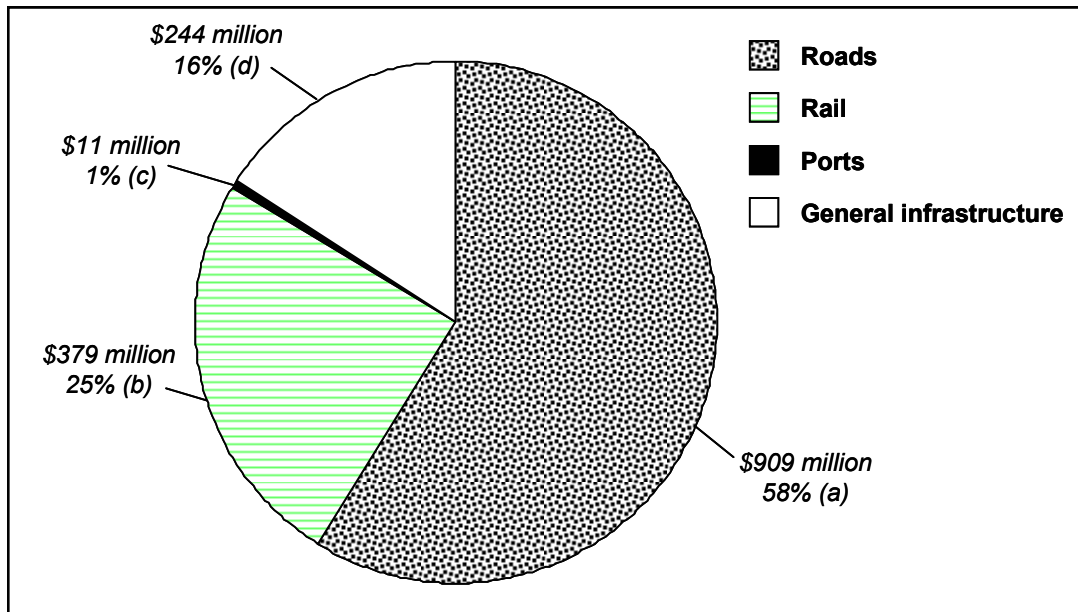
The department's allocation of asset investment expenditure for 2007-08 is shown in figure 5.4.

¹¹⁵ Budget Paper No.2, 2007-08 Strategy and Outlook, p.5

¹¹⁶ *ibid.*, p.5 (note a)

¹¹⁷ *ibid.*, p.6

**Figure 5.4: Department of Infrastructure
Budgeted expenditure 2007-08**



- Notes:
- (a) comprising \$403 million for regional roads, \$272 million for Melbourne metropolitan roads, \$47 million for general road safety infrastructure programs and \$187 million for other projects
 - (b) comprising \$291 million for regional rail and \$88 million for metropolitan rail
 - (c) \$11 million relating to the Princes Pier Restoration project
 - (d) general infrastructure projects, including accessible public transport in Victoria, \$39 million and whole of government revitalising central Dandenong, \$22 million

Source: Department of Infrastructure, email, received 1 June 2007

In *Budget Paper 2 Strategy and Outlook 2007-08*, the government indicated that it has also allocated \$10.5 billion to the *Meeting Our Transport Challenges* Statement, released in May 2006, to fund a range of transport infrastructure projects over a ten year period.¹¹⁸

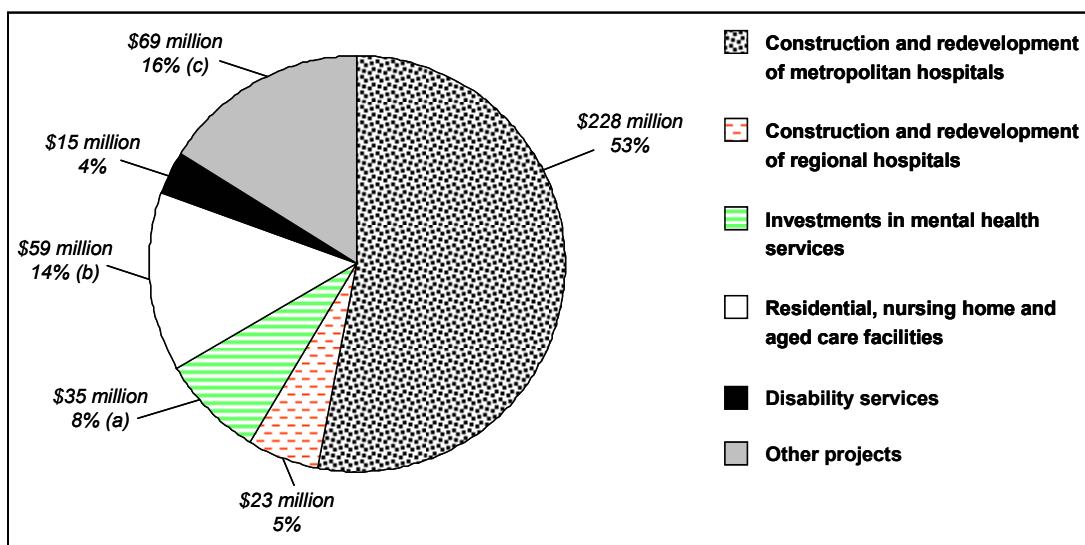
The Committee acknowledges that the proposed expenditure to be applied to the enhancement and construction of Victoria's infrastructure network is likely to make a contribution towards the state's economic growth and employment levels.

5.4.2 Department of Human Services

The budgeted 2007-08 expenditure of the Department of Human Services of \$429 million is shown in figure 5.5

¹¹⁸ *ibid.*, p.45

**Figure 5.5: Department of Human Services
Budgeted expenditure 2007-08**



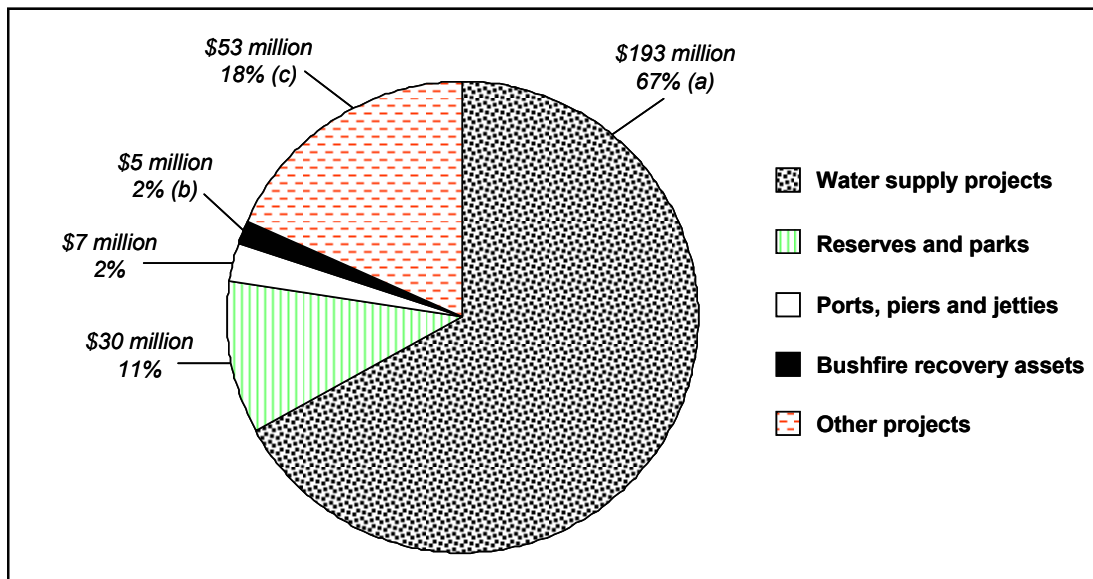
Notes: (a) comprising \$5 million to be spent in regional Victoria and \$30 million in the metropolitan area
 (b) comprising \$25 million in regional Victoria and \$34 million in metropolitan Melbourne
 (c) includes health information and community technology (ICT) expenditure, food centre upgrades and drug and alcohol programs

Source: Department of Human Services, email, received 23 May 2007

5.4.3 Department of Sustainability and Environment

The department's budgeted asset investment expenditure for 2007-08 totals \$288 million. The allocation of expenditure is shown in figure 5.6.

**Figure 5.6: Department of Sustainability and Environment
Budgeted expenditure 2007-08**



- Notes:
- (a) includes water recycling, water saving and irrigation projects. Additional funding for water infrastructure projects is also available through the government's *Our Water, Our Future Action Plan*
 - (b) this expenditure reflects only the expenditure necessary to rebuild or construct public assets and does not include financial assistance provided by government to rural communities through other means
 - (c) includes land acquisitions, transit cities projects and equipment funding

Source: Department of Sustainability and Environment, response to the Committee's 2007-08 Budget Estimates questionnaire, received 8 May 2007, p.25

The Committee considers that the recent shift in focus, by government, towards water saving and water reticulation projects is widely supported by the broader community. However the Committee believes appropriate focus needs to be placed on reporting, by water authorities and the department, on progress with water infrastructure projects to ensure that commensurate attention is given to this expanding area of operation. Community information and ongoing consultation will be important components of water policy and programs into the future.

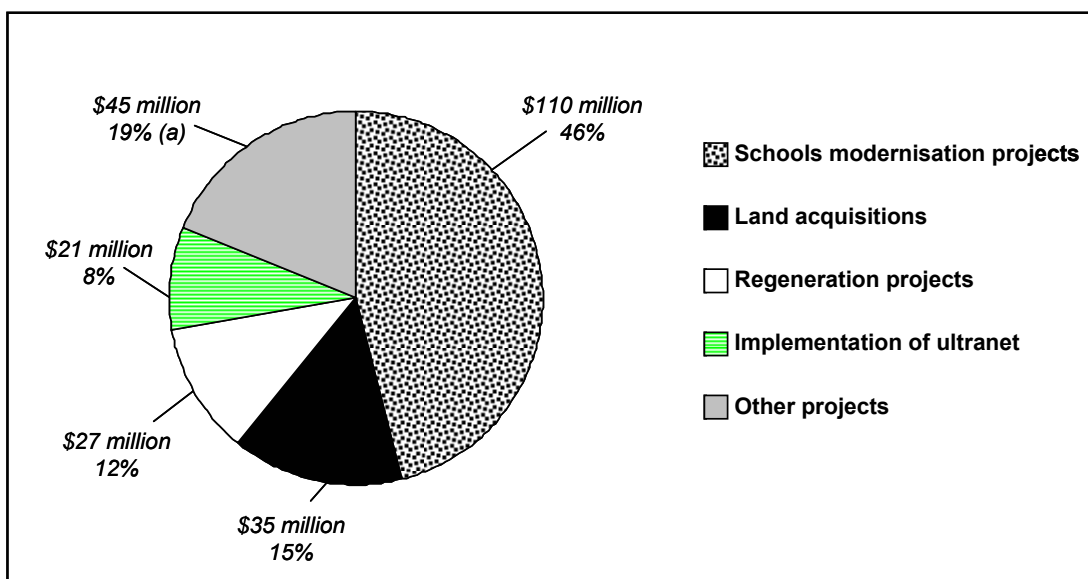
The Committee recommends that:

- Recommendation 16:** To enhance accountability and provide a means of disseminating information to the community and engaging the community in the formulation of water policy in future, the Department of Sustainability and Environment and water authorities report regularly on progress made on the construction of the major water supply projects.

5.4.4 Department of Education

The department's allocation of the total asset investment budget for 2007-08 of \$238 million is shown in figure 5.7

Figure 5.7: Department of Education Budgeted expenditure 2007-08



Note: (a) includes replacements schools, new schools in growth areas and increased access to computers

Source: Department of Education, response to the Committee's 2007-08 Budget Estimates questionnaire, received 4 May 2007, p.15

The expenditure outlined above is intended to deliver the government's commitment to undertake significant upgrading and construction of education facilities, including TAFE colleges.¹¹⁹ The expenditure is also consistent with the government's *Building Futures* policy statement which outlines the government's proposed capital investment in school infrastructure and with the government's *Building Tomorrow's Schools Today* Program.

In the Committee's opinion, the effectiveness and adequacy of education expenditure should be monitored to ensure that fairness of education opportunity is achieved in a balanced manner. Equality of opportunity should ensure that the more disadvantaged areas of Victoria receive appropriate support for their educational needs.

The Committee recommends that:

Recommendation 17: Asset investment connected with the upgrading and construction of education facilities be monitored from the viewpoint of ensuring that this spend occurs in an equitable manner so that the more disadvantaged areas receive appropriate support to meet their infrastructure and educational needs.

¹¹⁹ *ibid.*, p.44

CHAPTER 6: DEPARTMENTAL WORKFORCE – COMPARATIVE ANALYSIS

Key findings of the Committee:

- 6.1 Projections by departments of staff numbers and those of their major budget funded agencies up to 30 June 2008 indicate a likely increase of at least 2,564.2 EFT numbers (2.6 per cent) from the actual position at June 2006. Two of the ten departments expect a decrease in staff numbers by 30 June 2008 and one department expects staff numbers in 2007-08 to be unchanged. The other seven departments expect staffing increases.**
- 6.2 The Committee was provided with incomplete staffing information with the Department of Human Services and the Department of Innovation, Industry and Regional Development failing to provide detailed figures. This failure inhibited the Committee from making a full analysis of staffing costs.**
- 6.3 For the eight departments that furnished complete data to the Committee, the number of EFT executive officers is expected to fall by 5.7 per cent between 2006 and 2008, and the number of Victorian public service officers is projected to increase by 2.1 per cent over the same period.**
- 6.4 Targeted efficiencies in departments over the next four years announced in the 2007-08 budget will impact on future staffing levels and particularly head office staff.**
- 6.5 Departments should maintain a clear management trail identifying, for both internal and external reporting purposes, the impact of achieved savings on EFT staff numbers and costs, and the efficiency and quality of services to the community.**

6.1 Introduction

As part of its 2007-08 Budget Estimates inquiry, the Committee sought information from departments on their actual equivalent full-time (EFT) staff numbers at 30 June 2006 compared with the expected actual for 30 June 2007 and 30 June 2008. The Committee's request covered both departments and their major budget funded agencies.

The purpose of seeking such information was to identify any trends on staffing numbers within departments and budget funded agencies, and to consider any additional information provided by departments on matters impacting on staffing numbers such as machinery of government changes and targeted efficiency savings.

Departmental staffing costs are key components of output or recurrent expenditure. All departments and budget funded agencies are expected to continuously review their staffing profiles under their various programs to ensure delivery of program objectives in an efficient and economical manner.

The Committee considers that the number of staff is a key raw indicator of efficiency and effectiveness for government and its agencies. It accepts that any analysis also needs to take into account the level of staff and their skills as applied in a particular program, while acknowledging that, in a macro sense, there will be productivity gains to be made in virtually all programs in terms of staff by virtue of the application of new technology and continuous improvement in work practices.

On the basis of the expectation of productivity gains over time, the Committee judges that there should be incremental savings in staffing costs in the absence of any program changes or increases. In that context, any increase in staffing numbers by departments and agencies needs to be fully explained and justified.

6.2 Analysis of departmental staff numbers

The detailed information provided by each department was presented in the *Report on the 2007-08 Budget Estimates – Part One* and the *Report on the 2007-08 Budget Estimates – Part Two* which were tabled in Parliament on 24 May 2007 and 7 June 2007 respectively.

Table 6.1 brings together the aggregate EFT staff numbers furnished by departments and the expected percentage movement in those numbers between June 2006 and June 2008.

Table 6.1: Staff numbers of departments and major budget funded agencies (equivalent full-time, rounded) June 2006 to June 2008

| Department | 30 June 2006 (Actual) (EFT) | 30 June 2007 (Estimate) (EFT) | 30 June 2008 (Estimate) (EFT) | Variation between 2006 and 2008 (%) | Variation between 2007 and 2008 (%) |
|--|-----------------------------|-------------------------------|-------------------------------|-------------------------------------|-------------------------------------|
| Education | 52,291.4 | 52,791.0 | 53,311.0 | 1.9 | 1.0 |
| Human Services | 11,343.0 | 11,529.0 | 11,641.0 | 2.6 | 1.0 |
| Infrastructure | 3,764.1 | 3,825.0 | 3,888.9 | 3.3 | 1.7 |
| Innovation, Industry, and Regional Development (a) | 705.8 | 774.6 | 958.4 | 35.8 | 23.7 |
| Justice | 19,510.1 | 19,884.9 | 20,066.5 | 2.9 | 0.9 |
| Premier and Cabinet | 547.2 | 558.9 | 558.9 | 2.1 | - |
| Primary Industries | 2,671.3 | 2,649.9 | 2,624.9 | -1.7 | -0.9 |
| Sustainability and Environment | 4,287.9 | 4,600.5 | 4,624.5 | 7.8 | 0.5 |
| Treasury and Finance (b) | 1,086.2 | 1,176.6 | 1,203.6 | 10.8 | 2.3 |
| Victorian Communities (c) | 758.6 | 668.1 | 660.4 | -12.9 | -1.2 |
| Parliamentary departments | 437.0 | 428.7 | 428.8 | -1.9 | - |
| Total | 97,402.6 | 98,887.2 | 99,966.8 | 2.6 | 1.1 |

- Notes:
- (a) includes Office of Tertiary and Training Education and Multi Media Victoria staff, transferred to the department as a result of machinery of government changes following the 2006 election
 - (b) staff numbers within the Shared Services Centre show an increase of 23 EFT from 51.6 at June 2006 to an estimated 74.6 at June 2008
 - (c) the department's estimate of 668.1 for 30 June 2007 reflects machinery of government changes

Source: Responses from departments to the Committee's 2007-08 Budget Estimates questionnaire

As shown in table 6.1, staff projections in departments and major budget funded agencies up to 30 June 2008 indicate a likely increase of at least 2,564.2 EFT staff numbers or 2.6 per cent from the actual position in June 2006 and of at least 1,079.6 EFT staff numbers or 1.1 per cent from the estimated actual position in June 2007.

Of the ten government departments, just two, Primary Industries and Victorian Communities, as well as the parliamentary departments, expect a decrease in staff numbers over the two year period. The Department of Premier and Cabinet and the parliamentary departments expect an unchanged staffing position in 2007-08.

The Department of Human Services and the Department of Innovation, Industry and Regional Development submitted late staffing estimates for 2008 and did not provide a breakdown for that year according to key categories such as executive officers and Victorian public service officers. For the eight departments that furnished complete data, the number of EFT executive officers is expected to fall by 5.7 per cent between 2006 and 2008, and the number of Victorian public service officers is projected to increase by 2.1 per cent over the same period.

Not all departments differentiated between departmental staff numbers and those in their major budget funded agencies.

The Department of Human Services advised it had established a Health Services Payroll and Workforce Minimum Dataset, which will enable the collection of a wider range of staffing profiles in respect of the 92 hospitals that will comprise the dataset.¹²⁰ The department informed the Committee that complete data for all hospitals is not yet available from this dataset to support detailed estimation of future staffing levels in major funded hospitals. Accordingly, the Committee looks forward to receiving more comprehensive material on budget funded agencies from this department in future years.

The Committee was disappointed at the difficulty it experienced in obtaining good staffing figures from some departments. It will be looking for consistency and inclusiveness in staffing and workforce data furnished by departments and agencies. It stresses the importance of more comprehensive reporting by entities in future encompassing both staffing and consultancy expenditure as well as better benchmarks.

The Committee recommends that:

Recommendation 19: **All departments and their budget funded agencies ensure that complete and accurate information on staffing costs and related productivity benchmarks is available to the Committee in future years.**

6.3 Implications of Efficient Government policy and other efficiency measures for departmental productivity

As mentioned in Chapter 2, the government plans to achieve major efficiencies totalling \$632 million across departments over the next four years under its *Efficient Government* policy and other efficiency measures. The 2007-08 Budget Papers identify eight efficiency measures, with six falling under the umbrella of the *Efficient Government* policy. All eight measures may have implications for future departmental staffing numbers and one measure, described in the budget papers as involving 'general efficiencies across government including limiting the future growth of head office staff', is likely to have a direct staffing impact.¹²¹

¹²⁰ Department of Human Services, response to the Committee's 2007-08 Budget Estimates questionnaire, received 4 May 2007, p.14

¹²¹ Budget Paper No.3, 2007-08 *Service Delivery*, p.35

Some departments cited the government’s policy on planned efficiencies as likely to impact on future staffing numbers but did not specify the expected initial consequence of the policy on staffing estimates at 30 June 2008. However, the Department of Human Services provided information, see table 6.2 below, which indicates that its head office staffing level during 2007-08 is expected to equate with the anticipated 2006-07 position, that is, a no growth scenario for head office staff over the next twelve months.

**Table 6.2: Department of Human Services
Directly employed staffing levels – June 2006 to June 2008**

| | June 2006 | June 2007 (estimated) | June 2008 (estimated) |
|--------------|----------------------|--------------------------------------|--------------------------------------|
| | (EFT) | (EFT) | (EFT) |
| Head office | 2,621.0 | 2,669.0 | 2,669.0 |
| Regions | 8,723.0 | 8,860.0 | 8,972.0 |
| Total | 11,344.0 | 11,529.0 | 11,641.0 |

Source: Department of Human Services, email, received 23 May 2007

As also mentioned in Chapter 4, the Committee considers it will be important for the government to ensure that progressive information on the achievement of targeted savings by each department is adequately disclosed in the budget papers over the period of the savings initiative, in addition to detailed accountability coverage in departmental annual reports.

The Committee is interested in monitoring the extent to which targeted savings relating to staffing numbers and costs, both within and outside head office, are achieved within departments over the next four years. It intends to seek from departments in future years relevant information on these savings in terms of movements in EFT numbers and costs, and of the resultant consequences for service delivery. The Committee envisages that these consequences should mainly be favourable in that they would be expected to lead to benefits to the community from the provision of either more efficient or additional services.

There may also be other consequences experienced in departments from reduced resources such as a drop in efficiency as a result of an increased demand for services or pressures flowing from an accelerated roll-out of new programs.

The emergence of the government’s savings regime means that departments will need to carefully manage staffing costs associated with the direct delivery of services and those consumed in other more indirect functions such as policy review and administrative support. The Committee would expect a clear containment over the next four years of indirect staffing costs, with the burden falling on departments to also demonstrate that costs directly consumed in program delivery have been managed with maximum efficiency.

The Committee expects that these matters, which are integral to productivity improvement, will automatically be addressed in departments through implementation of the government’s savings policy. It does not anticipate any difficulties likely to be encountered by departments in furnishing relevant material to it in future years.

More detailed commentary on productivity in departments is presented in Chapter 4.

The Committee recommends that:

Recommendation 20: For internal management needs and external reporting purposes, all departments maintain core information identifying the impact of achieved savings to 2010-11 on EFT staffing numbers and costs, and the efficiency and quality of services.

Recommendation 21: All departments ensure that their annual reports to Parliament are transparent in their coverage of the achievement of savings targets and the impact on delivery of services to the community.

CHAPTER 7: COMMUNICATION, ADVERTISING AND PROMOTIONAL EXPENDITURE

Key findings of the Committee:

- 7.1 The Auditor-General's September 2006 report on *Government advertising* is a valuable accountability document which should assist the government and Parliament in their ongoing pursuit of avenues for maintaining the highest standards in the delivery of advertising and communications programs.
- 7.2 Based on information submitted by departments, advertising and promotional expenditure in 2007-08 is likely to total at least \$73 million.
- 7.3 Several departments advised the Committee that they do not develop a specific budget for advertising and promotional purposes as expenditure is determined by different organisational units according to program needs.
- 7.4 For greater accountability, the annual reporting responsibilities of departments should encompass measures to further improve disclosure of performance against budgets set for advertising and communications activities, in line with earlier recommendations of the Committee and the Auditor-General.

7.1 Past coverage of subject by the Committee and the Auditor-General

Public debate concerning the magnitude and appropriateness of advertising and promotional expenditure by governments has been a frequent occurrence in Australian and international jurisdictions. Not surprisingly, therefore, this aspect of public administration has often been subject to official scrutiny.

7.1.1 Past audits by the Auditor-General on government advertising

In Victoria, the Auditor-General has reported to Parliament on government advertising on four occasions over the last 11 years, the most recent in September 2006.¹²² The reviews conducted by the Auditor-General have mainly centred on specific matters referred by Members of Parliament and the community to the Auditor-General's Office alleging that certain government-funded advertising or promotional campaigns contained party-political material and represented inappropriate use of public moneys.

In assessing such campaigns, the Auditor-General has drawn attention in reports over the years to the legitimate right of governments to engage in advertising and promotional activities such as explaining policies, programs and services, informing the public of their rights and entitlements and encouraging community behaviour (for example, respect for the environment and responsible use of scarce natural resources) regarded as in the public interest.

¹²² Victorian Auditor-General's Office, *Government advertising*, September 2006

Some key issues addressed in the Auditor-General's September 2006 report

As early as 1996, the Auditor-General called for the development of a convention in Victoria to provide guidance to government agencies on advertising and promotional expenditure.

An important initiative was subsequently taken by the government in October 2002 with the issue of guidelines for advertising and communications.¹²³ The guidelines set out:

- the basic principles applying to government advertising and communications;
- the objectives to be adopted by agencies for the use of public funds;
- areas which would constitute misuse of public funds and therefore to be avoided; and
- 13 desirable features of government communications in order to uphold the highest standards of fairness, equity, probity and public responsibility.

Other significant action by the government has involved the centralising within the Department of Premier and Cabinet of strategic responsibility for oversight of activities and coordination of whole of government advertising and communications.

The importance of governments adhering to appropriate forms of advertising and communications is clearly reinforced in the following comment of the Auditor-General in the Foreword to the September 2006 report:¹²⁴

Whether activities are party-political is a matter of fine judgement, but when considered overall, there is a point at which the public becomes concerned about the intent of the government, both in terms of the potential political impact and the use of public funds.

The Committee considers the Auditor-General's September 2006 report is highly informative in that it:

- outlines the results of its assessment of eight selected government-funded campaigns against the principles embodied in the government guidelines, with aspects of six of the campaigns considered to be inconsistent with the guidelines;
- presents a useful analysis of the following contemporary practices used in public sector advertising and communications in Victoria that, while likely to enhance efficient and effective delivery of information to the community, also have the potential to raise perceptions of political intent:
 - use of market research;
 - use of branding;
 - use of authorisations; and
 - links to websites.
- draws on the results of research of Australian and international practices conducted during the audit to present in an appendix a better practice guide identifying suggested criteria for government-funded publicity activities.

¹²³ www.dpc.vic.gov.au, *Guidelines for Victorian Government Advertising and Communications*, accessed 25 July 2007

¹²⁴ Victorian Auditor-General's Office, *Government advertising*, September 2006, foreword

7.2 Advertising and promotional expenditure by departments

During its 2007-08 Budget Estimates inquiry, the Committee sought from each department the following financial information relating to their advertising and promotional activities:

- the communication, advertising and promotion budget for 2007-08;
- the actual expenditure incurred on communications, advertising and promotion in 2005-06 and 2006-07; and
- a break down of data according to like agencies, where possible, if machinery of government changes had impacted on the structure of the department.

The information received from departments is presented in table 7.1.

Table 7.1: Departmental advertising and promotional (actual and budgeted) expenditure 2005-06 to 2007-08

| Department | 2005-06 Actual (\$ million) | 2006-07 Estimated Actual (g) (\$ million) | 2007-08 Budget (\$ million) |
|---|-----------------------------------|--|-----------------------------------|
| Education (a) | 3.9 | 3.0 | 3.0 |
| Human Services (b) | 15.1 | 12.5 | 12.1 |
| Infrastructure (c) | 9.3 | 6.9 | 14.3 |
| Innovation, Industry and Regional Development (d) | 20.5 | 18.2 | 18.7 |
| Justice (e) | 6.0 | 4.5 | 5.9 |
| Premier and Cabinet (f) | 3.0 | 2.9 | 3.0 |
| Primary Industries | 4.3 | 2.7 | 2.7 |
| Sustainability and Environment | 9.7 | 8.4 | 7.9 |
| Treasury and Finance | 1.6 | 1.4 | 1.5 |
| Victorian Communities | 3.7 | 3.5 | 3.5 |
| Parliamentary departments | 0.3 | 0.3 | 0.4 |
| Total | 77.4 | 64.3 | 73.0 |

- Notes:
- figures for 2007-08 take into account machinery of government changes which resulted in the transfer of the Office of Training and Tertiary Education to the Department of Innovation, Industry and Regional Development and the Adult, Community and Further Education function to the Department for Victorian Communities*
 - budget figure for 2007-08 is an initial estimate which is subject to the outcome of the department's business planning process and specific campaign activity*
 - these figures include advertising by Vic Roads and the Southern and Eastern Integrated Transport Authority*
 - these figures include Tourism Victoria*
 - the 2007-08 budgeted figure includes an allocation of \$3.5 million for the Problem Gambling campaign which will carry over beyond 2007-08*
 - the department is not in a position to provide budgeted and actual data for its operations. Figures shown relate to the National Gallery of Victoria and the Museums*
 - the expected actual figures for 2006-07 provided by most departments represent expenditure at a point in time during the year and do not necessarily reflect expected expenditure for the full year*

Sources: Responses to the Committee's 2007-08 Budget Estimates questionnaire

CHAPTER 8: DEPARTMENTAL OUTPUT STRUCTURES AND PERFORMANCE MEASURES

Key findings of the Committee:

- 8.1** There is a net decrease of 144 output measures in the 2007-08 Budget Papers made up of 207 new measures and 351 discontinued measures. The percentage breakdown of both new and discontinued measures according to type of measure is the same in each case.
- 8.2** The bulk of changes to output structures and performance measures occurred in the Department of Justice following a major review in March 2007 by the Department of Treasury and Finance. There are now 5 fewer output groups, 23 fewer outputs and 114 fewer output measures, resulting in a clearer and more focused set of measures.
- 8.3** The number of measures presented in the budget papers is progressively falling. However, some quantitative measures still used by departments such as number of meetings held, projects or programs underway, number of bridges maintained and number of ministerial briefs, convey a targeted increase in output without any obvious connection to an improved service outcome. The aim of any future reviews should be to ensure that all quantitative measures clearly exhibit such a connection.
- 8.4** There is scope to enhance the quality of material on departmental output measures in the budget papers through a tabular presentation of the aggregate number of new and discontinued measures and a more consistent presentation of each department's policy decisions and directions.
- 8.5** In recent years, the Department of Treasury and Finance has incorporated new information in the budget papers on the linking of departmental outputs to key government outcomes. The Committee advocates the continued expansion of this material so that it provides more definitive performance data directly linking intended achievements to objectives.
- 8.6** Inclusion of robust performance material in future budget papers of the expected contributions from departmental outputs over the budgetary period to meeting objectives and contributing to government outcomes would help to reinforce the government's commitment to strong accountability in reporting on its effectiveness in the use of public resources.

8.1 Background to departmental outputs and performance measures and targets

The government manages delivery of its annual budget according to an accrual output based framework.

In recent years, the Auditor-General and the Committee have presented reports to Parliament on the control and management of appropriations. These reports incorporate comment on the government's output management framework and the adequacy of performance measures in place in capturing key aspects of output delivery.¹³⁷

The framework features a purchaser/provider arrangement under which Parliament authorises the Treasurer to purchase outputs from departments based on an accrual price to be paid to departments in return for delivering outputs. Appropriations are formally applied to departments when the Treasurer is satisfied that agreed outputs have been delivered.

The expected cost, quantity, quality and timeliness of outputs to be delivered by departments are agreed between the government and each of the respective Ministers and departmental secretaries prior to commencement of each financial year.

The government's annual budget paper on service delivery outlines the nature of departmental outputs and their relationship, through specification of performance measures, with the service delivery obligations of departments. Each group of outputs is linked to relevant key government outcomes.¹³⁸ A separate chapter in the budget papers shows the connection between output groups, key government outcomes and the five visions set out in the government's main strategic document, *Growing Victoria Together*.¹³⁹

The 2007-08 Budget Papers state that:¹⁴⁰

An output represents the aggregate of goods or services which are either produced or delivered by, or on behalf of, a department and its agencies. The quantity, quality, timeliness and cost performance measures listed for each output are used to assess each department's performance in service delivery. The output statements reflect the government's investment in services during the year in terms of the cost per unit of output, the quantity of the output units to be delivered, the level of quality and the timeliness of the output delivery.

The budget papers disclose for each performance measure the target specified for 2007-08 compared with the equivalent target for 2006-07, the expected outcome for that year and the actual outcome for 2005-06. They also identify new measures introduced for the year and any measures discontinued by departments, together with explanatory reasons.

8.2 Changes to departmental outputs and performance measures reflected in the 2007-08 budget

During its 2007-08 Budget Estimates inquiry, the Committee sought information from departments on any changes to:

- key government objectives expected to be achieved by the major outputs; and
- major outputs and performance measures in 2007-08 compared with 2006-07.

¹³⁷ Victorian Auditor-General's Office, *Parliamentary control and management of appropriations*, April 2003 and Public Accounts and Estimates Committee, *Report on the review of the Auditor-General's report on Parliamentary control and management of appropriations*, September 2005

¹³⁸ Budget Paper No.3, *2007-08 Service Delivery*, pp.51–260

¹³⁹ *ibid.*, pp.37–50

¹⁴⁰ *ibid.*, p.51

The purpose of seeking this information was to assess the nature of any such changes and determine whether there had been a consequential beneficial impact on the quality of performance material presented in the budget papers.

The departmental responses are presented in the Committee's May 2007 *Report on the 2007-08 Budget Estimates – Part One*.

The Committee's analysis of these responses and the relevant material presented in the budget papers identified a net decrease of 144 output measures in 2007-08 made up of 207 new measures and 351 discontinued measures. It also revealed that the breakdown of new and discontinued measures according to the three standard categories of measure, quantity, quality and timeliness, was the same in each case. Table 8.1 summarises this position.

Table 8.1: New and discontinued output measures presented in 2007-08 budget

| Item in 2007-08 budget | Total | Quantity measures | Quality measures | Timeliness measures |
|---|-------------|-------------------|------------------|---------------------|
| New output measures | | | | |
| Number of new measures | 207 | 103 | 52 | 52 |
| Proportion of total | 100% | 50% | 25% | 25% |
| Discontinued output measures | | | | |
| Number of discontinued measures | 351 | 174 | 89 | 88 |
| Proportion of total | 100% | 50% | 25% | 25% |
| Net movement in number of measures | -144 | -71 | -37 | -36 |

Source: *Budget Paper No.3, 2007-08 Service Delivery, pp.55–250, 397–430*

Reasons conveyed to the Committee by departments for the changes to their output measures include the impact of machinery of government changes, new budget initiatives, the government's 2006 election commitments and a need to better align measures with key government outcomes and the goals identified in the *Growing Victoria Together* document.

The bulk of changes to performance measures in the 2007-08 budget occurred in the Department of Justice (DOJ). The Committee was advised that the department's output structure for 2007-08 was significantly revised in March 2007. This revision was initiated following an assessment by the Department of Treasury and Finance (DTF) that the department had too many output groups and outputs for the level of its budget and that the output structure focused more on organisational issues than service delivery across the various portfolios supported by the department.¹⁴¹ The extent of the changes to the output structure of the DOJ is shown in table 8.2.

¹⁴¹ Department of Justice, response to the Committee's 2007-08 Budget Estimates questionnaire, received 1 May 2007, pp.20–21

Table 8.2: Major revision to 2007-08 output structure of the Department of Justice

| Item | Output groups (number) | Outputs (number) | Output measures (number) | Output budget (\$ million) |
|---------------------|---------------------------|---------------------|-----------------------------|-------------------------------|
| 2006-07 budget | 13 | 39 | 214 | 2,991.3 |
| 2007-08 budget | 8 | 16 | 100 | 3,155.3 |
| Net movement | -5 | -23 | -114 | 164.0 |

Sources: *Budget Paper No.3, 2007-08 Service Delivery, pp.151–171, 410–418 and Department of Justice, response to the Committee’s 2007-08 Budget Estimates questionnaire, received 1 May 2007, pp.20–21*

The DOJ further informed the Committee that its revised structure was achieved by aligning and consolidating services provided by different entities within new output specifications. It added that the review focused on broad principles of simplifying the output structure while retaining its effectiveness as a tool for managing service delivery, transparency and accountability.

The Committee is aware that DTF undertakes periodic reviews of the output structures and performance measures of departments and there has been significant improvement in the structure of outputs and the usefulness of measures over the years. The outcome of the above rationalisation of outputs and performance measures within the DOJ and the supportive reaction of that department are indicative of the extent and value of change that can emanate from the expert involvement of DTF.

The Committee would welcome continuation of similarly scoped output reviews of other major departments by DTF in future years. It noted for example that the outputs and measures of the Department of Sustainability and Environment have quite different descriptors to those of virtually all the other departments and are arguably more informative.

The Committee also believes that any future revisions of output measures should include an assessment of the need for retention of the current number of quantitative measures. While the number of quantitative measures has fallen over the years due to DTF reviews and departmental initiatives, there are still some measures described in such terms as projects and programs underway, number of ministerial briefs, number of bridges maintained and number of meetings held, that convey a targeted increase in output without any obvious connection to an improved service outcome. The aim should be to ensure that all quantitative measures clearly exhibit such a connection.

The Committee considers that disclosure of departmental output measures in the annual budget papers would be enhanced if the papers incorporated:

- a tabular presentation of the global movements in new and discontinued performance measures categorised according to quantity, quality and timeliness measures (for example, as per tables 8.1 and 8.2); and
- a more consistent approach to presentation of the major policies and directions of each department drawing on the format and content adopted by the Department of Infrastructure.¹⁴²

¹⁴² Budget Paper No.3, 2007-08 Service Delivery, pp.108–109

creation of an auditable framework on performance indicators in the departmental sector to expedite the involvement of the Auditor-General in this area.

An absence of verifiable performance data within departments has precluded the Auditor-General from using the legislative authority assigned by Parliament since as far back as 1999.

The Committee recommends that:

Recommendation 28: **The recent inclusion in the budget papers of information linking departmental outputs to government outcomes be progressively expanded to provide more performance material on the expected contributions by departmental outputs to meeting objectives and contributing to key government outcomes.**

CHAPTER 9: REGIONAL VICTORIA INITIATIVES AND RELATED ISSUES

Key findings of the Committee:

- 9.1 Victoria had the third highest regional population growth rate (1.41 per cent) behind Queensland (2.15 per cent) and Western Australia (1.88 per cent) in Australia in 2006, and there is a significant gap to the next ranking states, New South Wales (0.9 per cent) and South Australia (0.7 per cent).
- 9.2 Eight departments have responsibility for managing the funding initiatives for regional and rural development in Victoria announced in the 2007-08 budget.
- 9.3 49 output initiatives and 24 asset initiatives involving aggregate funding of around \$1 billion to 2010-11 are wholly aimed at supporting regional and rural development. A further 27 initiatives with total funding of \$811.5 million have a mix of metropolitan and regional programs and services, and funding is not dissected in the budget papers according to the regional and non-regional components.
- 9.4 There is scope for enhancing presentation in the budget papers or associated materials of funding initiatives for regional and rural development through inclusion of tables identifying each department's budgetary responsibility for new programs and services in each of Victoria's designated regions.
- 9.5 There is also potential to incorporate in each year's budget papers a dedicated document on funding initiatives supporting regional and rural development, that is, rural Victoria as well as provincial cities, in Victoria.
- 9.6 Around 20 per cent (93 questions) of the 456 questions asked by the Committee during the 2007-08 Budget Estimates hearings related specifically to regional and rural Victoria. Portfolios with the highest percentage of questions were regional and rural development, agriculture, water, environment and climate change, and employment, which have responsibilities of direct significance to regional and rural development.

9.1 Background

For some years now, the government has directed attention, in the formulation of its strategic policies and budgetary priorities, on regional and rural development in Victoria.

The government's main policy document for regional and rural development in more recent years has been its *Moving Forward* statement issued in November 2005.¹⁴⁵ This statement is a \$502 million package of measures designed to build on the strength of regional economies and unlock the potential for future growth.¹⁴⁶

¹⁴⁵ Department of Innovation, Industry and Development, *Moving Forward: Making Provincial Victoria the Best Place to Live, Work and Invest*, November 2005

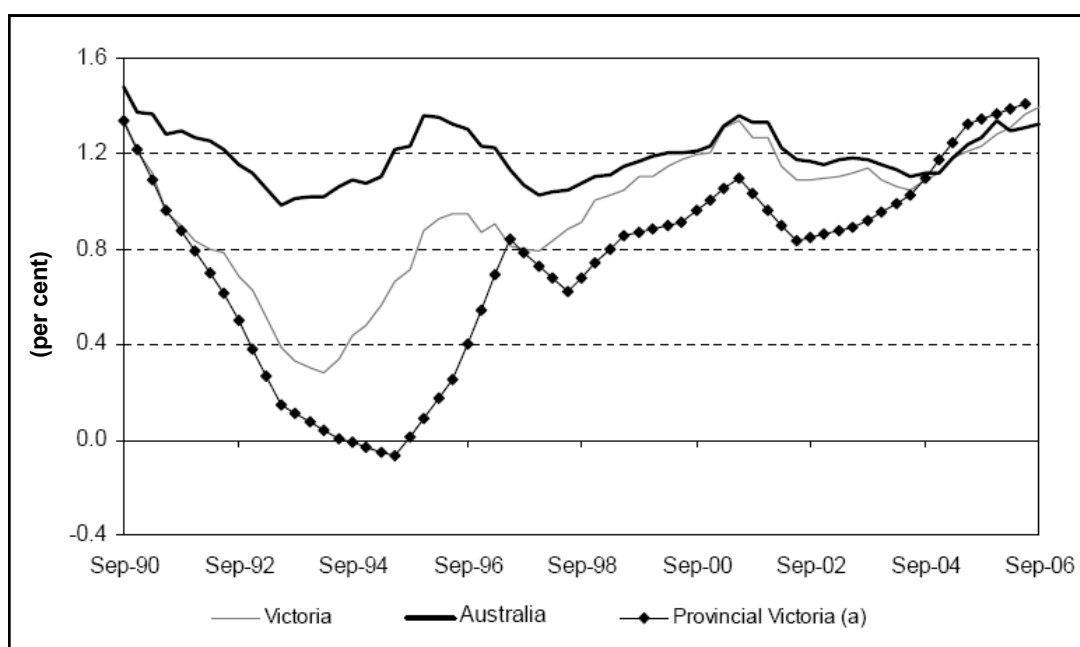
¹⁴⁶ Australian Labor Party, Policy for the 2006 Victorian Election, *Provincial Victoria: Moving Forward – Not Back*, p.6

Funding measures within the statement included provision of \$200 million to extend the Regional Infrastructure Development Fund to 2009-10 and of \$100 million to establish the Provincial Victoria Growth Fund. A range of regional infrastructure projects is financed through the former fund, which is administered by Regional Development Victoria, a statutory body established to facilitate economic and community development in regional and rural Victoria.¹⁴⁷ The latter fund assists in the promotion and growth of provincial Victoria, including identifying new business opportunities and addressing skills shortages.

The enabling legislation governing the role and functions of Regional Development Victoria established the Regional Development Advisory Committee to provide advice to the Minister on matters relating to economic and community development in regional and rural Victoria.

The strategy and outlook document within the 2007-08 Budget Papers states that population growth in regional Victoria has been strong, with growth in 2005-06 of 1.4 per cent, the highest regional growth behind Western Australia and Queensland.¹⁴⁸ Figure 9.1 compares the Victorian and Australian annual population growth as shown in the budget papers.

Figure 9.1: Victorian and Australian annual population growth



Note: (a) For provincial Victoria, annual population growth is interpolated to a quarterly basis

Source: Budget Paper No.2, 2007-08 Strategy and Outlook, p.25

The Committee's analysis of regional growth data published by the Australian Bureau of Statistics showed there is a significant gap between Victoria as having the third highest growth rate in 2005-06 (1.41 per cent) and the next ranking states (New South Wales, 0.9 per cent and South Australia, 0.7 per cent).¹⁴⁹

¹⁴⁷ Regional Development Victoria Act 2002, Section 1

¹⁴⁸ Budget Paper No.2, 2007-08 Strategy and Outlook, p.24

¹⁴⁹ www.abs.gov.au, accessed 27 August 2007

The budget papers also state that employment growth in regional Victoria ‘was strong over the year [2005-06] to the March quarter, at over 5 per cent, and the country Victoria unemployment rate has fallen by over one percentage point over the past year to 5.2 per cent’.¹⁵⁰

9.2 Overview of new 2007-08 output and asset funding initiatives relating to regional and rural development

As mentioned in Chapter 2, the theme, *Provincial Victoria*, is identified as one of the 12 key themes underpinning the direction of the 2007-08 budget and its new funding initiatives.

Throughout the budget documents, there are numerous references to funding initiatives of relevance to rural and regional development. Because of the diverse nature of these initiatives, responsibility for their implementation is spread across several departments.

The government’s overview budget document lists a number of the more significant funding initiatives for the *Provincial Victoria* theme under the following four headings:¹⁵¹

- improving regional services;
- strengthening regional industry;
- helping provincial communities manage climate change and water; and
- combating bushfires.

Table 9.2 identifies the initiatives shown in the budget document or through subsequent announcements under these headings.

¹⁵⁰ Budget Paper No.2, *2007-08 Strategy and Outlook*, p.24

¹⁵¹ Victorian Budget Overview, *Delivering for Victorian Families*, May 2007, pp.30–31

Table 9.2: Provincial Victoria funding initiatives – 2007-08 budget

| Improving regional services | Strengthening regional industry | Helping provincial communities manage climate change and water | Combating bushfires and flooding |
|--|--|---|--|
| \$25 million TEI for new hospital facilities at Warrnambool and Ballarat and planning at Geelong and Bendigo | \$180 million for a new biosciences research centre that will reinforce Victoria's leadership in agricultural biotechnology and protect the state's primary industries from plant and animal disease | \$600 million as the government's contribution to the \$1 billion Food Bowl Modernisation Project (a) | \$30 million over four years and \$12 million TEI to boost the capacity of the State Emergency Service to respond to calls for assistance, and replace and upgrade equipment |
| \$38 million to increase emergency on-call arrangements, create an additional 11 training posts for general practitioners, eight new rural GP obstetrics training positions and an additional 15 training posts for medical specialists in rural hospitals | \$5 million over three years for a Local Roads to Markets program to expand the eligibility of the Dairy Industry Local Roads program to include other selected agricultural and horticultural producers who do not currently have B-Double access to their properties | \$13 million in 2007-08 to refocus the Our Rural Landscape program to develop scientific solutions to the threats posed by climate change, including options that are commercially viable | \$11 million for the replacement of bridges and fences in parks and forests and restoration of built assets in affected parks in Gippsland and North East Victoria |
| \$48 million TEI for new or upgraded community health and aged care centres in Stawell, Nathalia and Leongatha | \$30 million over four years to protect farms and the natural environment from pests and weeds | \$10 million over four years to assist farmers to develop farm water management plans and more efficient on-farm irrigation systems through the Water Smart Farms program | \$14 million over four years to provide grants to emergency service units to assist with the purchase of equipment and the recruitment of more volunteers |
| \$22 million over four years to provide for additional elective surgery in rural Victorian hospitals | \$4 million over three years to help farmers to develop more efficient energy usage on their properties | \$10 million TEI to continue the Werribee Vision, increasing Melbourne's capacity to treat additional recycled water from the Werribee Irrigation District | \$9 million TEI for the replacement of rural fire stations to enhance the Country Fire Authority's ability to respond to and fight bushfires |
| \$123 million TEI to replace, modernise and rebuild regional schools | \$23 million over four years to promote regional tourism | \$20 million over four years to assist small towns to improve their water quality | \$70 million in funding packages in response to major flooding in the Gippsland region (a) |
| \$42 million TEI for five new or rebuilt police stations | \$2 million over four years to support Farmers' Markets | \$4 million over two years for a major recycled water project for Leongatha | |
| A \$30 million boost to regional bus services | \$5 million over three years to improve regional airports across Victoria | \$38 million TEI for the Shepparton Irrigation Area | |
| | \$4 million over three years to improve and upgrade rural showgrounds | | |

Note: (a) announced subsequent to the budget

Source: 2007-08 Victorian Budget Overview, *Delivering for Victorian Families*, pp.30–31

As stated in Chapter 2, the funding support provided for combating bushfires in regional areas announced in the budget was followed by a July/August 2007 funding package of \$70 million as a result of major flooding in the Gippsland region.

Chapter 2 also mentions the government's eight year Food Bowl Modernisation Project of up to \$2 billion announced in June 2007 which, inter alia, will address irrigation inefficiencies in Victoria's Food Bowl region and involve a government contribution of \$600 million to its first stage.

A number of the above 2007-08 initiatives are also presented in another section of the budget papers as supporting the visions set out in *Growing Victoria Together* through '*Building a stronger Victorian Industry and Strengthening Regional Development*'.¹⁵² In addition, the budget overview document shows a map of Victoria linking unquantified funding initiatives to areas of the state encompassing regional as well as Melbourne and outer suburban areas.¹⁵³

The 2007-08 funding allocations for regional and rural development follow allocations announced by the government in previous budgets such as funding for the Wimmera Mallee pipeline – the 2006-07 budget states that funding announced in that budget took the total state contribution to the project to \$175 million. Other programs benefiting rural and regional Victoria are the Victorian Schools Plan with \$13 million allocated to replace relocatable buildings in rural schools, and a regional roads upgrade program to the value of \$91 million, encompassing Stage four of the Geelong Ring Road.

9.2.1 Scope for enhanced presentation of departmental funding initiatives for regional and rural development

The current presentation in the budget papers of the main funding initiatives falling under the *Provincial Victoria* theme, as described above, is very helpful to readers with an interest in this subject. Nevertheless, the Committee considers there is scope to further enhance the presentation of material, particularly in terms of assisting readers to more readily determine each department's responsibility for the management of budgeted funds aimed at supporting regional and rural development.

The Committee has identified, from its analysis of the information presented in the main service delivery budget document, that:

- eight departments have been assigned responsibility for managing asset and output funding initiatives associated with regional and rural development;
- 49 output initiatives with funding totalling \$317.3 million and 24 asset initiatives with funding amounting to \$628.4 million are wholly aimed at supporting regional and rural development in the state; and
- a further 12 output initiatives and 15 asset initiatives are of a composite nature in that they involve both metropolitan and regional programs or services, with aggregate funding allocations of \$811.5 million not dissected according to their regional and non-regional components.

The Committee is aware from its analysis that it would be an onerous task for members of Parliament and other readers of the budget papers to determine the extent of service delivery responsibility assigned to individual departments for new output and asset funding initiatives relating to regional and rural development. This task is made more difficult by the fact that, as shown above, several

¹⁵² Budget Paper No.3, *2007-08 Service Delivery*, pp.31–33

¹⁵³ Victorian Budget Overview, *Delivering for Victorian Families*, May 2007, pp.16–17

funding initiatives cover both regional and non-regional areas and it is not standard practice to show a dissection of the funding allocation across regions in the budget papers.

In Chapter 2, the Committee has suggested that the government give consideration to categorising and sub-totalling in future budget papers new funding initiatives for each department according to the applicable budgetary theme. For the *Provincial Victoria* theme, such presentation would assist members of Parliament and other readers of the budget papers to identify each department's responsibility for new programs and services supporting regional and rural development.

The Committee also suggests that the government assess the potential for insertion within the budget papers or in accompanying material in the budget reports a table identifying the quantum of funds allocated by department to support regional and rural development, with funding dissected according to the various designated regions of the state. The government's provincial Victoria website identifies the following eleven regions of the state outside Melbourne:¹⁵⁴

- Geelong, Otway and Hinterland;
- Gippsland;
- Goulburn Murray;
- Goulburn River and Ranges;
- Grampians Pyrenees;
- Great South Coast;
- Loddon Murray;
- Mildura Swan Hill;
- North East Victoria;
- Victoria's Goldfields; and
- Wimmera Mallee.

The Committee considers this form of disclosure would facilitate trend analysis by members of Parliament of whole of government funding for regional and rural development purposes. It would add to the existing disclosure practices and complement current ex-post reporting of the management of funds in regional areas by the Department of Innovation, Industry and Regional Development and by Regional Development Victoria. It would be a worthwhile step in further enhancing the presentation of material in each year's budget papers.

The Committee recommends that:

Recommendation 29:

The government consider widening presentation in the budget papers or associated materials of information on announced new initiatives for regional and rural development to encompass a dissection of funding allocated to each department for each of the state's designated regions.

¹⁵⁴ www.provincialvictoria.vic.gov.au , accessed 27 August 2007

Recommendation 31: The government explore the merits of an associated budget document on funding allocated to programs for regional and rural Victoria, that is, rural Victoria as well as provincial cities.

9.3 Analysis of questions and key issues arising from the budget estimates hearings

During its 2007-08 Budget Estimates hearings, the Committee expressed significant interest in the government’s strategies and programs relating to regional and rural Victoria.

Table 9.3 identifies the number of questions asked by the Committee relating specifically to regional and rural Victoria at the estimates hearings for the various portfolios.

Table 9.3: Questions asked by the Committee at the estimates hearings relating specifically to regional and rural Victoria

| Portfolio | Questions by the Committee | | |
|--|----------------------------|--|--------------------------|
| | Total number (a) | Number relating to regional and rural Victoria (b) | Percentage of (b) to (a) |
| Department of Education | | | |
| Education | 43 | 4 | 9 |
| Department of Human Services | | | |
| Children | 12 | 1 | 8 |
| Community Services | 16 | 1 | 6 |
| Health | 35 | 7 | 20 |
| Housing | 10 | 1 | 10 |
| Mental Health | 9 | 1 | 11 |
| Department of Infrastructure | | | |
| Public Transport | 21 | 3 | 14 |
| Roads and Ports | 16 | 3 | 19 |
| Department of Innovation, Industry and Regional Development | | | |
| Industrial Relations | 12 | 1 | 8 |
| Regional and Rural Development | 11 | 8 | 73 |
| Skills | 10 | 2 | 20 |
| Department of Justice | | | |
| Corrections | 15 | 1 | 7 |
| Police and Emergency Services | 31 | 3 | 10 |
| Department of Premier and Cabinet | | | |
| Arts | 10 | 2 | 20 |
| Premier's | 35 | 8 | 23 |
| Department of Primary Industries | | | |
| Agriculture | 28 | 19 | 68 |
| Energy and Resources | 13 | 3 | 24 |

Table 9.3: Questions asked by the Committee at the estimates hearings relating specifically to regional and rural Victoria (*continued*)

| Portfolio | Questions by the Committee | | |
|---|----------------------------|--|--------------------------|
| | Total number (a) | Number relating to regional and rural Victoria (b) | Percentage of (b) to (a) |
| Department of Sustainability and Environment | | | |
| Planning | 26 | 2 | 8 |
| Water, Environment and Climate Change | 29 | 10 | 34 |
| Department of Treasury and Finance | | | |
| Treasury | 20 | 3 | 15 |
| Department for Victorian Communities | | | |
| Aged Care | 19 | 4 | 21 |
| Employment | 10 | 3 | 30 |
| Local Government | 12 | 2 | 17 |
| Victorian Communities | 13 | 1 | 8 |
| Total | 456 | 93 | 20 |

Source: Information compiled by Committee based on questions raised at the budget estimates hearings

As identified in table 9.3, Ministers responded to 93 questions (20 per cent of all questions asked by the Committee) directly relating to regional and rural Victoria at the 2007-08 Budget Estimates hearings. Those portfolios with the highest percentage of questions were regional and rural development, agriculture, water, environment and climate change, and employment. These portfolios have many responsibilities that are of direct significance to regional and rural Victoria.

The Committee intends to further pursue during its future outcomes inquiries a number of the matters relating to regional and rural development that were raised during the 2007-08 estimates hearings.

CHAPTER 10: MEASURING THE COMMITMENT OF MINISTERS AND DEPARTMENTS IN SERVICING THE PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Key findings of the Committee:

- 10.1** The demands placed on Ministers and their supporting departments in servicing the Committee's inquiries are significant. The Committee appreciates the professional manner in which Ministers and departments respond to these demands.
- 10.2** The total annual cost to departments associated with supporting Ministers in servicing the Committee's inquiries is at least \$1 million.
- 10.3** The Committee intends to give greater visibility in future reports to the commitment of Ministers and departments in servicing the activities of the Committee and responding to their accountability obligations.
- 10.4** The government has provided additional ongoing funding of \$360,000, from and inclusive of 2007-08, to specifically augment the Committee's activities.

10.1 The Committee's role in the accountability process

The Public Accounts and Estimates Committee is a joint investigatory committee of the Victorian Parliament. Its role is unique in Australia in that it has the dual responsibility of scrutinising both the public accounts and the annual budget estimates. The Committee is also responsible for a range of statutory functions associated with the independence and performance of the Auditor-General.

The Committee's *Report on the 2007-08 Budget Estimates – Part One*, was tabled in Parliament on 24 May 2007 and describes the role of the Committee in the budget estimates process, which includes:

- the conduct of public estimates hearings with each Minister and the Presiding Officers of Parliament at which they are questioned on their budgetary allocations for the ensuing financial year;
- the seeking of written responses from Ministers to questions taken on notice and unasked questions arising from the hearings for their portfolios; and
- provision of responses by departments to an annual budget estimates questionnaire issued by the Committee addressing the impact of the budget on departmental operations and future directions.

Subsequent to the budget estimates process, the Committee seeks information from departments on their financial results for the previous year and their performance against planned outcomes. This retrospective outcomes review complements the prospective budget estimates exercise.

The Committee also undertakes inquiries from time to time into specific aspects of public administration either selected by the Committee for examination or referred to it by the Governor-Council on behalf of the Parliament or government.

In summary, the Committee is the key representative body of Parliament assigned the responsibility of ensuring adequate transparency about the government's financial management practices. It fulfils a major role in strengthening the government's accountability to Parliament and the community.

10.2 Relationship between the Committee and Ministers and their supporting departments

Ministers and their supporting departments are significant contributors to inquiries of the Committee. Much of the Committee's annual work on budget estimates and outcomes centres on information and responses provided by Ministers and departments.

By way of illustration, at the budget estimates hearings, Ministers make a presentation to the Committee on the key issues and budgetary priorities impacting on their portfolios. These presentations are a valuable source of information to the Committee and members of the public on the main strategic matters earmarked for attention in each portfolio over the next forward estimates budget period (usually four years).

Following these presentations, Ministers and their senior departmental officials are questioned by all Members of the Committee about their proposed use of allocated funds.

The demands placed on Ministers and supporting departments in preparation for and participation at the estimates hearings, as well as other inquiries, are therefore significant. The Committee appreciates the professional manner in which Ministers and departments respond to these demands. The Committee considers it is indicative of their respect for the scrutiny powers of the Committee, separate from the Executive arm of government, and their commitment to upholding public accountability in Victoria.

10.3 Estimates of departmental resources involved in servicing inquiries of the Committee

Mindful of the extent of cooperation and assistance provided by Ministers and departments, the Committee sought, during its 2007-08 Budget Estimates inquiry, information from Ministers on the estimated level of resources and staffing costs involved annually for each portfolio department in servicing inquiries of the Committee.

The ministerial responses were informative and indicated that the total annual cost, predominately of a staffing nature, to coordinating departments supporting Ministers in servicing the activities of the Committee is at least around \$1 million. This figure represents a minimum estimate as:

- two responses, from the Treasurer and the Department of Education on behalf of the Minister, did not attach a dollar value to the resource estimates;
- estimates were not provided for three of the five portfolios supported by the Department of Human Services;
- some estimates cited were conservative in nature and in one case the estimate was limited to the Committee's budget estimates inquiry; and
- servicing of the Committee's activities was not always costed in departments as a separate activity because it was viewed as integral to the budget development phase, which meant in those cases only broad estimates could be furnished.

In six instances, the annual cost estimate was greater than \$50,000 with the Department of Justice providing the highest estimate, namely \$422,500.

The Committee is aware that not a lot of information is available in the public arena to illustrate the extent of the commitment by Ministers and departments to meeting their public accountability obligations. The Committee therefore intends to seek, as a standard budget estimates question, similar information from Ministers in future years. It suggests that departments make suitable provision within their costing systems to facilitate the annual extraction of relevant information.

The Committee recommends that:

Recommendation: 32: **Departments ensure their costing systems readily identify the level and cost of resources allocated to supporting Ministers in their servicing of the Committee's inquiries.**

10.4 Staffing needs of the Committee

The wide ranging scrutiny role accorded by Parliament to the Committee accentuates the importance of the availability to it of adequate staffing levels so that it can consistently produce high quality output and convey value adding recommendations in its reports.

As mentioned in the Chair's introduction in the Committee's *Report on the 2007-08 Budget Estimates – Part One* tabled on 24 May 2007, the Committee was pleased to hear from the then Premier, Hon. S Bracks MP at the estimates hearing of 3 May 2007, on the importance the government attaches to its role. At the hearing, the Premier indicated that additional funding of \$360,000 would be made available in 2007-08 and subsequent years:¹⁵⁵

...to this Committee for its work, its staffing and undertaking the investigations that it pursues. I am very pleased about that.

The Premier also undertook:¹⁵⁶

...to have formal correspondence submitted by the Treasurer to the PAEC outlining the money resources and the allocation of that and the principles on which it was allocated.

On 17 May 2007, the then Acting Premier formally advised the Committee of this additional funding as well as a further \$240,000 for 2006-07. As no new staff were appointed before the end of the financial year, this \$240,000 was not utilised.

Evidence was taken at the estimates hearings with the Presiding Officers on this matter and the Speaker agreed that the funding was 'to provide for additional inquiries and for additional staff and operational expenditure.' The Chair tabled a letter to the Clerk, on behalf of the Committee, seeking a classification of the executive officer position at the VPS 6.2 level with a gratuity, while noting that the Committee believed the position merited an E03 level classification. The Committee has also sought additional research officers and believes that the appointment of senior research officers at the VPS 5.2 level is warranted.

¹⁵⁵ Hon. S Bracks MP, Premier, 2007-08 Budget Estimates hearing, transcript of evidence, 3 May 2007, p.2
¹⁵⁶ *ibid.*, p.34

The Speaker noted that a higher classification of the executive officer position was an issue. The Clerk also noted that he was happy to look at a work value case in respect of the PAEC secretariat.

Subsequent to the hearing, the Presiding Officers have employed Hay Consulting to report on the work value of senior parliamentary positions including the executive officer of the Public Accounts and Estimates Committee. The Clerk has also employed a private consultant, Mr Warren Peart to review the staffing resources of the secretariat. The Committee was advised of the terms of reference of the latter review but was not consulted on them. It was of the view that the terms of reference did not sufficiently address the immediate need for more senior and additional full-time staff. The Chair and Deputy Chair met with the consultant and put the Committee's view that the additional funding provided by Parliament should be allocated for what was intended when the Committee sought the funds from the Premier: the appointment of a more senior executive officer and additional full-time research staff.

At the time of the preparation of this report the results of the two external staffing reviews were not available. The Committee looks forward to the early and positive resolution of the secretariat's urgent staffing needs.