

SECTION A: OVERVIEW

CHAPTER 1: INTRODUCTION

1.1 Background

On 6 May 2008, the government introduced two appropriation bills: the *Appropriation (2008/09) Bill* and the *Appropriation (Parliament 2008/09) Bill*, into Parliament. These Bills subsequently passed through the Parliament in June 2008. The legislation enables the government and the Parliament to deliver planned services and embark on new asset investments during 2008-09.

The appropriation Bills sought parliamentary authority to draw an amount of \$31.2 billion from the Consolidated Fund in 2008-09 for government services and \$93.4 million for the funding of Parliament's activities. These amounts include funding to meet operating expenditure involved in the provision of outputs (new and ongoing initiatives) and capital additions to the State's net asset base.

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

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

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

- special appropriations where there is continuing authority embodied in specific legislation (\$2.3 billion);¹
- agency revenue credited to appropriations (\$2.1 billion);² and
- unspent prior year appropriations carried over to the budget year (\$539.7 million).³

The 2008-09 Budget estimates identify that the government expects total income in the year from operating transactions of \$37.8 billion and total expenditure from operating transactions of \$37 billion.⁴ Total expenditure from operating transactions is met from the output funding component of the appropriation acts and funds derived from special appropriations, agency revenue credited to appropriations and unspent prior year appropriations carried forward.

In addition, the government's net infrastructure investment program is expected to involve spending of \$3.9 billion in 2008-09 and to average \$4.3 billion over the forward estimates period to 2011-12.⁵ This capital expenditure is met from the cash surplus generated from operating activities (after adding back non-cash items such as depreciation), proceeds from asset sales, an unallocated capital provision available for specific projects in future years and an increase in net debt.

¹ Budget Paper No.4, *2008-09 Statement of Finances*, pp.222-4

² *ibid.* pp.225-7

³ *ibid.*

⁴ *ibid.* p.10

⁵ Budget Paper No.2, *2008-09 Strategy and Outlook*, p.49

1.2 Process followed by the Public Accounts and Estimates Committee for its review of the 2008-09 Budget Estimates

A key function of the Committee each year is to conduct an inquiry into the budget estimates. This process involves the conduct of public estimates hearings with each Minister and supporting departmental officers, the gathering of information from departments through a budget estimates questionnaire and presentation of a report in three parts to Parliament. The Committee's overall aim with this annual process is to:

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

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

The main intention of the Committee, in presenting its two earlier reports to Parliament on the 2008-09 Budget Estimates (Parts One and Two), was to assist Members of Parliament in their consideration of the appropriation Bills and, in turn, to enrich the Parliament's debate on the Bills.

This third component (Part Three) of the reporting process contains:

- the Committee's analysis, key findings and recommendations pertaining to the 2008-09 Budget estimates;
- additional information sought to clarify particular responses to the Committee's budget estimates questionnaire; and
- responses received to questions taken on notice and unasked questions emanating from the estimates hearings.

The report culminates the Committee's examination of the 2008-09 Budget estimates.

1.2.1 Analysis, key findings and recommendations

Section A of the report outlines in summary form key aspects of the 2008-09 Budget as well as providing specific analysis of key fiscal parameters, including infrastructure funding, contingency provisions, planned efficiency initiatives, revenue foregone and unspent funds carried forward from the previous financial year.

Drawing on the material received in response to the Committee's 2008-09 Budget Estimates questionnaire and various matters raised through the estimates hearings, section B contains the results of the Committee's analysis of a number of issues, presented under theme headings, that have direct relevance to the examination of the budget estimates. Continuing the approach adopted by the Committee in the previous year, key fiscal and economic matters such as productivity, economic reform and staffing are the subject of extensive analysis.

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

1.2.2 Recent machinery of government changes

The government announced shortly before the release of the 2008-09 Budget that responsibility for most functions of the former Department of Infrastructure had been transferred to a new Department of Transport under a machinery of government change. The budget papers indicated that these changes also included the transfer of certain other functions, particularly relating to major projects, of the former department to the Department of Innovation, Industry and Regional Development.⁶

The budget papers state that, for financial reporting purposes, the above transfers do not take effect until after the end of 2007-08. They also identify that, while there is no net impact of these changes on the aggregate budget, the full impact of the changes on the 2008-09 departmental estimates was yet to be quantified. The changes were therefore not reflected in the 2008-09 Budget.⁷ Accordingly, references in this report to the former Department of Infrastructure are consistent with the position presented in the budget papers.

⁶ Budget Paper No 3, *2008-09 Service Delivery*, pp.2-3

⁷ *ibid*

1.3 Scope for further assistance to readers of the annual budget papers

As recognised in the Committee's report on the 2007-08 Budget estimates, the government has, for some years now, made progressive improvements to the presentation of material in the annual budget papers.⁸ The importance of these initiatives, from a reader perspective, is reinforced by the size of each year's budget documentation and the diversity and complexity of material included in each budget paper.

The Committee is aware that the Department of Treasury and Finance (DTF), which has principal responsibility for preparation of the budget papers, places strong emphasis on ensuring that material is presented in a user friendly format, notwithstanding technical content or complexity, to assist readers. The Committee considers that DTF has been largely successful in pursuing this goal.

Currently, the budget papers do not identify a DTF contact area for any reader who requires assistance in locating information in the budget papers on a particular subject or in comprehending published material. Also, the DTF website does not directly invite suggestions (such as through a suggestion facility) from readers on areas with potential for enhancing the presentation of budget material. The Committee considers that action by DTF on these two fronts would assist its endeavours to continually improve the clarity and readability of published budget material.

Recommendation 1:

The Department of Treasury and Finance implement strategies, such as identification of a contact area in the budget papers and a suggestion facility on its website, to assist readers experiencing difficulty in locating or comprehending material and to invite suggestions from readers for improving the readability of budget data.

1.4 Acknowledgment

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

The cost of this inquiry was approximately \$73,300.

⁸ Public Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates – Part Three*, September 2007, p.39