

**Government Responses to the Recommendations of
PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE'S**

116th Report to the Parliament - Report on the 2013-14 Budget Estimates – Part Two

DEPARTMENT OF TREASURY AND FINANCE

Pursuant to Section 36 of the *Parliamentary Committees Act 2003*, this paper provides a response to the recommendations contained in the Public Accounts and Estimates Committee's (PAEC) 116th Report.

Guide for readers - Following is the explanation of the format of this paper.

1 Title		
2 Chapter number and topic		
1 PAEC recommendation	2 Response	3 Action taken to date and commitment to further action

- Row 1: Indicates the title of this paper.
- Row 2: Indicates the number and topic of the response to the PAEC recommendations.
- Column 1: Contains PAEC's recommendations as published in its 116th Report – Part Two.
- Column 2: Indicates the Government's response to each recommendation:
- Column 3: Provides an explanation of the Government's position on the recommendation indicates the actions that have been taken to date, relevant to the implementation of the recommendation and outlines commitment to further action, relevant to the implementation of the recommendation.

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 1, p2, Chapter 1: Introduction		
<p>Future budget papers provide more information about the potential impacts of key risks and the measures included in the budget papers to mitigate them, including quantifying the risks and measures where possible.</p>	Not support	<p>The Government supports the principle that clear information on key risks within budget papers should be provided, including quantifying risks where possible and measures to mitigate the risks.</p> <p>However, the budget papers already provide detailed information to this end.</p> <p>Both the Budget (Budget Paper No. 2 <i>Strategy and Outlook</i>) and the Budget Update publications detail information on key economic and fiscal risks.</p> <p>Budget Paper No. 5 <i>Statement of Finances</i>, Chapter 6 <i>Contingent Assets and Liabilities</i> and the Budget Update publications also detail information on contingent liabilities. This includes estimated impacts of quantifiable contingent liabilities and commentary on significant non-quantifiable contingent liabilities. This information is prepared in accordance with the principles of Australian Accounting Standard AASB137 <i>Provision, Contingent Liabilities and Contingent Assets</i>.</p>
Recommendation 2, p3, Chapter 1: Introduction		
<p>Future budget papers explain variations for any component of the budget estimates from one year to the next (including the previous year, budget year and each year of the forward estimates period) where the variation is:</p> <p>(a) close to or over \$1.0 billion; or</p> <p>(b) more than 50 per cent for any item with a value over \$200.0 million.</p>	Support	<p>The Government supports the principle that significant variations in budget estimates should be explained clearly and in a manner which ensures it is both informative and in accordance with the purpose of the budget papers.</p> <p>The budget papers already provide a significant amount of detailed information to this end. This includes variations of the magnitude raised by PAEC.</p> <p>Budget Paper No. 2 <i>Strategy and Outlook</i>, Chapter 4 <i>Budget Position and Outlook</i> and Budget Update, Chapter 3 <i>Budget Position and Outlook</i> publish commentary on both year-on-year trends and movements between previous budget publications to the current budget publication for both revenue and expenditure items.</p> <p>Budget Paper No. 3 <i>Service Delivery</i> also provides a comprehensive outline of the investment in departmental outputs and new policy decisions.</p> <p>Budget Paper No. 4 <i>State Capital Program</i> provides a comprehensive outline of State capital expenditure estimates. An example from 2013-14 is Sunshine Hospital – Expansion and Redevelopment Stage 3, where the change in Total Estimated Investment is explained in the footnote.</p> <p>Budget paper No. 5 <i>Statement of Finances</i> provides comprehensive detail on the financial forecasts. The Estimated Financial Statements are reviewed by the Auditor-General and are presented in a manner consistent with Australian Accounting Standards, in particular the principles of AASB1049 <i>Whole of Government and General Government Sector Financial Reporting</i>.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 3, p3, Chapter 1: Introduction		
The Department of Treasury and Finance undertake a review of the budget papers to ensure that all key terms are clearly defined.	Support	The Department of Treasury and Finance will conduct a review of all key terms in the budget papers to ensure they are clearly defined. This will be completed prior to the publication of the 2014-15 budget papers.
Recommendation 4, p50 Chapter 3: Revenue		
Future budget papers include a discussion of the size of variances from previous forecasts (including those made four years in advance) in discussing forward estimates.	Support	<p>The Government supports the principle that budget papers should include information about variances from previous estimates. Detailed information is already publicly available.</p> <p>Budget Paper No. 2 <i>Strategy and Outlook</i>, Chapter 4 <i>Budget Position and Outlook</i> and Budget Update, Chapter 3 <i>Budget Position and Outlook</i> publish commentary on movements between previous budget publications to the current budget publication for revenue items. Included in the commentary is a discussion on the key drivers of the variance for the budget year and the three forward estimates years.</p> <p>From the time a financial year first appears in the previous year's budget forward estimates, financial estimates for that year are published another seven times. A detailed reconciliation of variations to revenue from one publication to the next is provided as part of budget and budget update publications.</p> <p>In addition, the Government publishes online data sets (www.dtf.vic.gov.au) that show current and previous forecasts for various macroeconomic parameters.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
---------------------	----------	---

Recommendation 5, p56 Chapter 3: Revenue		
<p>Future budget papers include a discussion of the impact on revenue and expenditure when macroeconomic indicators are 1 per cent lower than expected.</p>	<p>Support</p>	<p>The Government supports the principle that budget papers should include appropriate sensitivity analysis, including discussion of the risks to the budget of actual macroeconomic indicators varying from published estimates and forecasts.</p> <p>However, a sufficiently detailed discussion is already included in the budget papers.</p> <p>Budget Paper No. 2 Strategy and Outlook, Appendix A, provides a sensitivity analysis relating to independent variations in major economic parameters. It outlines the impacts of key fiscal aggregates to selected economic indicators being 1 per cent higher than expected.</p> <p>The appendix explains that the sensitivity modelling is broadly symmetric. However, for some results the impacts of changes are not symmetrical and therefore care should be exercised when using the table to estimate the impact of lower than expected economic variables.</p> <p>Following the 2013-14 Budget, further examination concluded that the impact of a 1 per cent lower than expected outcome for an economic variable would, in most instances, simply be the opposite of the impact shown in the table. The corresponding footnote in the 2013-14 Budget Update was amended accordingly.</p>
Recommendation 6, p59 Chapter 3: Revenue		
<p>Future budget papers include an analysis of the competitiveness of Victoria’s taxation compared to other states.</p>	<p>Support in principle</p>	<p>The Government supports the principle that the budget papers should contain sufficient information about taxation and other revenue to enable comparison with other states. Sufficiently detailed information is already included in the budget papers about Victorian revenue to enable interstate comparisons.</p> <p>However it is beyond the scope of Victoria’s budget papers to publish detailed information about the budget aggregates and other detail of other jurisdictions’ budgets such as taxation and other revenue.</p>
Recommendation 7, p66 Chapter 4: Commonwealth Funding		
<p>Once funding arrangements between Victoria and the Commonwealth for the National Disability Insurance Scheme have been finalised, future budget papers clearly specify the impact on the budget.</p>	<p>Support</p>	<p>The impacts of the National Disability Insurance Scheme on the budget will be reflected in the budget papers when the impacts are known.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
---------------------	----------	---

Recommendation 8, p79 Chapter 4: Commonwealth Funding

Future budget papers identify the grants included in the line items labelled 'other' in the break-down of Commonwealth grants for specific purposes.

Not support

The Government supports the principle that Commonwealth grants should be clearly shown in the budget papers in appropriate detail.

Detailed information appropriate to the scope and purpose of the budget papers is already included.

However, the payments aggregated into 'other' are so aggregated because of the large number of agreements with a small financial value. Where grants are a substantial size, they are separately listed.

Recommendation 9, p86 Chapter 4: Commonwealth Funding

In discussing 'specific purpose grants for on-passing' in future budget papers, the Department of Treasury and Finance identify any Commonwealth grants passed on to bodies outside the state public sector that are not included in 'specific purpose grants for on-passing', and indicate why these amounts have not been included.

Support

The Government supports the principle that all grants for on-passing be identified in the budget papers.

The budget papers already identify all payments to local governments and non-government schools that are provided as specific purpose grants for on-passing. There are no other third-party payments for on-passing.

Recommendation 10, p98 Chapter 5: Borrowings, Debt and Liabilities

Future budget papers include, when explaining superannuation liability assumptions, information on the estimated numbers of eligible superannuation beneficiaries over the forward estimates period.

Not support

The Government supports the principle that the budget papers should include a clear, informative and accurate explanation of the superannuation liability and related impacts on the state's financial position.

However, the budget papers already include detailed explanations to that end, and will include the State's actuary's estimated number of eligible superannuation beneficiaries when it assists to explain the state's financial exposure.

Estimates of the number of beneficiaries are provided in the three-yearly actuarial investigation that is tabled in Parliament.

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 11, p108 Chapter 6: Output expenditure		
The budget papers include a discussion and explanation of changes in base funding for departments.	Not support	<p>The Government supports the principle that the budget papers should clearly and accurately explain changes in state government funding to departments from year to year.</p> <p>Explanation of movements in departmental funding from year to year are explained and published in individual departmental annual financial reports, including the impacts of factors such as Commonwealth funding and own source revenue. As noted in the Government's response to PAEC's 111th report on the 2012-13 Budget Estimates, explanations for all decisions that impact on departments' funding are published in the year in which the decisions were made and the future impact of these decisions are also outlined.</p>
Recommendation 12, p112 Chapter 6: Output expenditure		
Consistent with other forecasts, significant variations in forecasts for government purpose expenditure classifications from one year to another be discussed and explained in the budget papers.	Not support	<p>The Government supports the principle that the budget papers should explain significant variations to expenditure over the forward estimates where these relate to Government decisions made in the current year.</p> <p>The government purpose classification tables in Budget Paper No. 5 <i>Statement of Finances</i> are prepared for statistical purposes and the note to the table indicates that the classification of expenses is determined using ratios based on historical data and the impact of policy and non-policy estimate variations.</p> <p>As funding is provided for the delivery of outputs, full descriptions of changes to outputs from one year to another are provided within the budget papers, and provide the most meaningful method of reporting on changes arising from Government decision making.</p>
Recommendation 13, p114 Chapter 6: Output expenditure		
In future budget papers, the Department of Treasury and Finance explain variations in the growth rate between individual years within the forward estimates period for employee expenses and other significant line items.	Support	<p>The Government supports the principle that significant variations in expenses, including employee expenses, should be clearly explained in the budget papers.</p> <p>The budget papers already provide detailed explanations of major expense variations, including those relating to employee expenses.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 14, p116 Chapter 6: Output expenditure		
The Government reinstate the practice of explaining variances between total expenses from transactions for departments and departmental total output costs.	Support	For future budgets, explanation of variances between total expenses from transactions and departmental total output costs will be published as part of the online datasets.
Recommendation 15, p122 Chapter 6: Output expenditure		
When one savings initiative partially or fully replaces an earlier savings initiative, the description given in the budget papers for the new initiative include a statement quantifying relevant savings already made and savings yet to be made in the old initiative.	Support	<p>The Government supports the principle that the scope and cost of new initiatives, including efficiency measures, be clearly and accurately explained in budget papers.</p> <p>The budget papers already provide detailed information about efficiency measures and other savings. For example, Budget Paper No. 3 <i>Service Delivery</i> provides a table of efficiency and expenditure reduction measures on p.62 with accompanying commentary.</p>
Recommendation 16, p124 Chapter 6: Output expenditure		
The Department of Treasury and Finance update the model report to require departments to list expenditure reduction methods along with data indicating whether expenditure reductions have been achieved through efficiency gains or reductions in service delivery.	Not Support	Under the output management framework departments are funded for the delivery of outputs, and information on input costs are not reported centrally in the budget papers.
Recommendation 17, p125 Chapter 6: Output expenditure		
Future budget papers indicate both the total impact of savings measures and the impact of each measure on each department.	Support in principle	<p>The Government supports the principle that efficiency and other savings measures be clearly and accurately reported in budget papers.</p> <p>The budget papers already report on the impact of specific departmental initiatives. Where an initiative is a whole-of-government initiative it is appropriate that the impact is explained at a whole-of-government level.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 18, p127 Chapter 6: Output expenditure		
<p>Future budget papers include a reconciliation between reprioritisation and adjustments and departmental 'existing resources' line items.</p>	<p>Support in principle</p>	<p>The Government supports the principle that the budget papers should clearly and accurately report the impacts of reprioritisation and adjustments.</p> <p>Budget Paper No.3, <i>Service Delivery</i> identifies each department's existing resources that are reprioritised to fund new initiatives. Budget Paper No 2 <i>Strategy and Outlook</i> provides additional detail about reprioritisations that have occurred over time. The two sections may not be directly comparable, and this is clear in the presentation of Budget Paper No 2.</p>
Recommendation 19, p128 Chapter 6: Output expenditure		
<p>In future budget papers, the Department of Treasury and Finance improve its discussion of the basis, role and calculation of output contingencies, including a discussion of the reasons for and implications of fluctuations in amounts set aside for future expenditure.</p>	<p>Support in principle</p>	<p>The Government supports the principle that the budget papers should include information which is as clear and accurate as possible about significant output contingencies and any associated risks to the state's financial position.</p> <p>Detailed information is already provided in the budget papers.</p> <p>Budget Paper No. 2 <i>Strategy and Outlook</i>, Chapter 4 <i>Budget Position and Outlook</i> and Budget Update, Chapter 3 <i>Budget Position and Outlook</i> provide information on the role and basis behind output contingency provisions under the fiscal risk sections. Also, the aggregate level of output contingency provision can be found in both publications; Note 12(b) in Budget Paper No. 5 <i>Statement of Finances</i>, Chapter 1 <i>Estimated Financial Statements and Notes</i> and Note 12(b) in Budget Update, Chapter 5 <i>Estimated financial statements and notes</i>.</p>
Recommendation 20, p134 Chapter 7: Performance measurement		
<p>The Department of Treasury and Finance, through its guidance materials, require changes to departmental objectives made in the budget papers to be supported by text that provides the rationale for the change and indicates any impacts on departmental service delivery.</p>	<p>Support</p>	<p>The Department of Treasury and Finance will require departments to provide explanations for changes to objectives for inclusion in the budget papers, consistent with the current policy on changes to outputs and performance measures.</p>
Recommendation 21, p134 Chapter 7: Performance measurement		
<p>The Department of Health incorporate its focus areas into its list of objectives in the 2014-15 budget papers, increasing its number of objectives from three.</p>	<p>Not Support</p>	<p>The Department of Health's areas of focus presently include the seven priorities in the <i>Victorian Health Priorities Framework 2012-2022</i>. The proposal to include some of these into the "objectives" of the Department to increase the number from three is pre-emptive as the priorities do not each have specific indicators. Not all of the priorities – or areas of focus – can be said to be "objectives" that are different to the existing three. The overlap between the priority areas and objectives is unsurprising as the focus areas are the means for pursuit of the objectives.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 22, p135 Chapter 7: Performance measurement		
The Department of Treasury and Finance work with departments to ensure that all objective indicators included in the budget papers clearly identify and measure impacts on the community rather than outputs or processes.	Support	The Department of Treasury and Finance will work with departments to ensure that in future budget papers objective indicators identify and measure the impacts on the community of departmental activities.
Recommendation 23, p136 Chapter 7: Performance measurement		
Departments in future budget papers ensure that all objective indicators are clearly quantifiable or measurable.	Support	The Department of Treasury and Finance will continue to work with departments to ensure that in future budget papers objective indicators are clearly quantifiable or measurable.
Recommendation 24, p137 Chapter 7: Performance measurement		
Future budget papers and annual reports include at least five years' past performance data for each objective indicator, where possible.	Not Support	The budget papers presently include performance data for three years including the previous year, the budget and forecast for the current year and the coming budget year. Actual performance data for the past five years is published as part of the online data sets for each budget.
Recommendation 25, p137 Chapter 7: Performance measurement		
The Department of Treasury and Finance update the Model Report for Victorian Government Departments to require departments to report on their actual results for all objective indicators stated in the budget papers. The model report should also include a recommended format for presenting this information.	Support	The Department of Treasury and Finance will update the Model Report to require departments to report progress figures for objective indicators.
Recommendation 26, p139 Chapter 7: Performance measurement		
The Department of Environment and Primary Industries provide descriptions for all its outputs in future budget papers.	Support	The Department of Environment and Primary Industries will publish descriptions of all of its outputs in future budget papers. The Department of Environment and Primary Industries has developed descriptions for all of its outputs.

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 27, p141 Chapter 7: Performance measurement		
The Department of Treasury and Finance assist departments to review their output titles to ensure they are clear.	Support	The Department of Treasury and Finance will work with departments to ensure that the titles of all outputs are clear and relate to the activities delivered through that output.
Recommendation 28, p145 Chapter 7: Performance measurement		
The Department of Treasury and Finance work with departments to ensure that they follow the guidance requiring them to have performance measures reflecting all major initiatives released in future budgets.	Support	The Department of Treasury and Finance will work with departments to ensure that departments follow the guidance requiring them to have performance measures reflecting all major initiatives released in future budgets.
Recommendation 29, p146 Chapter 7: Performance measurement		
The Government not discontinue the measures listed in Table 7.6 of this report.	Awaiting PAEC response	The Minister for Finance has responded directly to the Chair of the PAEC on the Government's position on the discontinued measures included in Table 7.6 of the Committee's report.
Recommendation 30, p148 Chapter 7: Performance measurement		
The Department of Treasury and Finance continue to review its quality assurance processes to ensure clarity in the relationship between new and discontinued performance measures.	Support	The Department of Treasury and Finance will continue to review its quality assurance processes and will work with departments to ensure clarity in the relationship between new and discontinued performance measures.
Recommendation 31, p156 Chapter 8: Asset Investment		
Future budget papers include an explanation of how the 'cash flows from PPP payments' item is calculated, including whether amounts included in that figure are also included in line items of the financial statements and, if so, which ones.	Support in principle	The Government supports the principle that the budget papers include an explanation of how cash flows from PPP payments are calculated. This will be done in a way which ensures that commercially sensitive information relating to PPPs under construction remains confidential.

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 32, p156 Chapter 8: Asset Investment		
The causes of variations in the value of 'cash flows from PPP payments' from one year to the next be explained in future budget papers.	Support	The budget papers will include an explanation of variations.
Recommendation 33, p159 Chapter 8: Asset Investment		
To enable an understanding of how the Government is achieving its infrastructure investment target, future budget papers disclose the individual components used in calculating the 'Government infrastructure investment' measure across the forward estimates period.	Support in principle	<p>The Government supports the principle that the budget papers should include information about components of the infrastructure program in the budget papers, while ensuring that commercially sensitive information remains confidential.</p> <p>The budget papers already provide detailed information on components of the Government's infrastructure program in Budget Paper No. 4, <i>State Capital Program</i>, p.11.</p>
Recommendation 34, p159 Chapter 8: Asset Investment		
Future Annual Financial Reports for the State disclose actual figures for all components of the 'Government infrastructure investment' measure in the reporting year and compare these to forecasts in the budget papers and the previous year's actual results.	Under review	<p>The Government will consider how best to report components of the Governments infrastructure program in future Annual Financial Reports, taking into account any relevant commercial sensitivities around PPP projects. Government infrastructure investment includes net infrastructure investment and estimated capital cash flows for Partnerships Victoria Projects, and excludes one off fiscal stimulus payments for <i>Nation Building – Economic Stimulus Plan</i> Social Housing component and <i>Building the Education Revolution</i>.</p> <p>The Annual Financial Report is a general purpose report on financial outcomes, and it is beyond the scope of this report to re-publish detailed budget forecasts.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
---------------------	----------	---

Recommendation 35, p171 Chapter 8: Asset Investment		
<p>In future budget papers, the Department of Treasury and Finance build on the list of projects funded by investment through other sectors ('investments in financial assets for policy purposes'), by ensuring that:</p> <p>(a) line items in that list can be readily connected to projects listed in Chapter 3 of Budget Paper No.4; and</p> <p>(b) any differences between the estimated expenditure in the list and the estimated expenditure in Chapter 3 are explained.</p>	Support	<p>The budget papers will cross reference 'investments in financial assets for policy purposes' to individual projects listed in Budget Paper No.4 <i>State Capital Program</i> Chapter 3. If there are reasons why these amounts differ, a note will be incorporated to explain any differences.</p>
Recommendation 36, p171 Chapter 8: Asset Investment		
<p>Estimated completion dates for projects in future budget papers be aligned with financial years, so that it is clear to the reader which financial year a project is expected to be completed in.</p>	Support	<p>The budget papers will align completion dates with financial years.</p>
Recommendation 37, p173 Chapter 8: Asset Investment		
<p>The Department of Treasury and Finance revise its definitions in Budget Paper No.4 to explicitly identify terms that are used interchangeably and avoid the potential confusions noted in this report.</p>	Support	<p>The budget papers will provide clear definitions of technical terms.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 38, p173 Chapter 8: Asset Investment		
The Department of Treasury and Finance continue to expand the definitions in Budget Paper No.4, including adding definitions of 'Government infrastructure investment' and 'cash flows from PPP payments'.	Support	The Department of Treasury and Finance will add definitions for 'government infrastructure investment' and 'cashflows from PPP payments' to the glossary.
Recommendation 39, p181 Chapter 9: The Government's Response to the Committee's Report on the 2012-13 Budget Estimates		
As part of its review of guidelines for responding to inquiries, the Department of Premier and Cabinet provide a clear definition of the conditions under which a recommendation should be considered to be implemented.	Under Review	The Department of Premier and Cabinet will consider the development of such a definition as part of its review of guidelines for responding to inquiries.
Recommendation 40, p181 Chapter 9: The Government's Response to the Committee's Report on the 2012-13 Budget Estimates		
Following its investigation, the Department of Treasury and Finance implement a system to inform committees about the ultimate decisions on all recommendations initially classified as 'under review'.	Not support	The Government supports the principle that committees be informed about final decisions on recommendations initially classified as "under review". Relevant ministers and departments are able to provide this information to PAEC in responses to questionnaires and the Department of Treasury and Finance will continue to respond to PAEC on matters within the department's portfolio responsibility.
Recommendation 41, p182 Chapter 9: The Government's Response to the Committee's Report on the 2012-13 Budget Estimates		
The Department of Premier and Cabinet liaise with the Department of Treasury and Finance to ensure that any new guidelines for responding to inquiries incorporate any system developed by the Department of Treasury and Finance to inform the Committee about recommendations initially responded to as 'under review'.	Support in principle	The Government supports the principle that the Department of Premier and Cabinet reflect the Government's response to recommendation 40 in revised guidelines for responding to inquiries.

PAEC recommendation	Response	Action taken to date and commitment to further action
---------------------	----------	---

Recommendation 42, p182 Chapter 9: The Government's Response to the Committee's Report on the 2012-13 Budget Estimates

As part of its review of guidelines for responding to inquiries, the Department of Premier and Cabinet develop a procedure to inform committees when the Government changes its response to a recommendation prior to implementation.

Under Review

The Department of Premier and Cabinet will consider the development of such a procedure as part of its review of guidelines for responding to inquiries.