



**PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE
THIRTY-THIRD REPORT TO PARLIAMENT**

**REPORT ON THE 1999-2000
BUDGET ESTIMATES**

MARCH 2000

Ordered to be printed

By Authority
Government Printer for the State of Victoria

No. 17 Session 2000

Report on the 1999-2000 Budget Estimates

TABLE OF CONTENTS

COMMITTEE MEMBERSHIP - 54TH PARLIAMENT	I
COMMITTEE MEMBERSHIP - 53RD PARLIAMENT	III
DUTIES OF THE COMMITTEE.....	V
GLOSSARY	VII
CHAIRMAN’S INTRODUCTION.....	XIII
EXECUTIVE SUMMARY.....	XV
RECOMMENDATIONS	XXVII
CHAPTER 1 REVIEW OF BUDGET ESTIMATES.....	1
1.1 Introduction.....	1
1.2 Legislative requirements – response to Committee’s recommendations	2
1.3 Previous recommendations.....	3
1.4 Availability of corporate and business plans	8
CHAPTER 2 BUDGET OVERVIEW	9
2.1 Basis of preparation of the budget estimates	9
2.2 1998-99 budget outcomes and overall position.....	9
2.3 Revenue	12
2.4 Expenditure	14
2.5 Revised budget figures	15
2.6 Budget sector statement of financial position	18
2.7 Budget sector liabilities.....	21
2.8 Privatisation receipts.....	22
2.9 Debt management	22
2.10 Unfunded superannuation liabilities	23

CHAPTER 3	REVIEW OF BUDGET PAPERS	25
3.1	Adequacy of disclosures in the Budget Papers.....	25
CHAPTER 4	CAPITAL ASSETS CHARGE.....	31
4.1	Capital Assets Charge.....	31
CHAPTER 5	DEPARTMENT OF TREASURY AND FINANCE	39
5.1	Output management framework	39
5.2	Corporate and business plans.....	43
5.3	Budget overview	43
5.4	Human resources.....	45
5.5	Key issues facing the Department.....	45
5.5.1	<i>Tax Reform</i>	45
5.5.2	<i>Privatisation</i>	45
5.5.3	<i>Information Technology and the Year 2000</i>	45
5.6	Gambling taxes.....	46
5.7	Regulation of the Gaming Industry.....	48
CHAPTER 6	DEPARTMENT OF EDUCATION	51
6.1	Introduction.....	51
6.2	Output management framework	51
6.3	Corporate and business plans.....	55
6.4	Budget overview	56
6.5	Human resources.....	57
6.6	Key issues facing the Department.....	57
6.6.1	<i>Managing additional demand for services</i>	57
6.6.2	<i>Improving student and client achievement in education and training</i>	58

6.6.3	<i>Maximising the use of technology and multimedia</i>	58
6.6.4	<i>Improving Victoria's competitiveness in science, engineering and technology</i>	59
6.7	Self governing schools	60
6.8	Unfunded superannuation liabilities-Victorian Universities	61
6.9	Department of Education outsourcing strategic plan.....	63
 CHAPTER 7 DEPARTMENT OF HUMAN SERVICES.....		65
7.1	Output management framework	65
7.2	Corporate and business plans.....	66
7.3	Budget overview.....	66
7.4	Human resources.....	68
7.5	Key issues facing the Department.....	69
7.5.1	<i>Increase in demand for services</i>	69
7.5.2	<i>Commonwealth/State Financial Arrangements</i>	69
7.5.3	<i>Australian Health Care Agreement (AHCA)</i>	70
7.5.4	<i>Residential care facilities</i>	70
7.5.5	<i>Financial position of public hospitals</i>	71
 CHAPTER 8 DEPARTMENT OF INFRASTRUCTURE.....		74
8.1	Introduction.....	74
8.2	Output management framework	74
8.3	Corporate and business plans	75
8.4	Budget overview.....	75
8.5	Key issues facing the Department.....	76
8.6	Outsourcing arrangements.....	77
8.7	Public transport franchising arrangements	77
8.8	Fare evasion and revenue protection.....	79
8.9	Human resources.....	80
 CHAPTER 9 DEPARTMENT OF JUSTICE.....		81

9.1	Introduction.....	81
9.2	Output management framework	81
9.3	Corporate and business plans.....	81
9.4	Budget overview	83
9.5	Human resources.....	84
9.6	Key issues facing the Department.....	85
9.6.1	<i>Additional demands on police services.....</i>	85
9.6.2	<i>Extra prison capacity and piloting imprisonment alternatives.....</i>	86
9.6.3	<i>Establishment of a police and emergency service mobile data network.....</i>	86
9.6.4	<i>Y2K Departmental systems remediation and disaster management contingency planning.....</i>	87
9.6.5	<i>On-line 2001 ESD service implementation.....</i>	87
9.7	Powers of the Auditor-General to examine non-judicial functions of Victorian Courts.....	87

CHAPTER 10 DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENT..... 91

10.1	Output management framework	91
10.2	Corporate and business plans	91
10.3	Budget overview.....	91
10.4	Human resources.....	93
10.5	Key issues facing the Department.....	94
10.5.1	<i>Undertaking initiatives for building the State's scientific and technological capability</i>	94
10.5.2	<i>Determining strategies for dealing with financial pressures facing farmers in the broadacre grazing industries</i>	94
10.6	State's share of assets managed by the Murray Darling Basin Commission.....	94
10.7	Native title claims.....	96
10.8	Land Titles Office.....	96

CHAPTER 11 DEPARTMENT OF PREMIER AND CABINET 97

11.1	Output management framework	97
11.2	Corporate and business plans.....	98
11.3	Provision of outputs.....	98
11.4	Human resources.....	100
11.5	Key issues facing the Department.....	101
11.5.1	<i>Arts agencies redevelopment</i>	101
11.5.2	<i>Rural and regional strategy</i>	102
11.5.3	<i>Greenhouse gas emissions</i>	102
11.5.4	<i>Strategies to strengthen the public sector</i>	102
11.6	Construction of the Melbourne Museum.....	102
11.7	Community Support Fund.....	103

CHAPTER 12 DEPARTMENT OF STATE DEVELOPMENT 106

12.1	Performance measures.....	106
12.2	Corporate and business plans.....	106
12.3	Budget overview.....	106
12.4	Human resources.....	107
12.5	Key issues facing the Department.....	108
12.5.1	<i>Accelerating the Regulation Reform Program</i>	108
12.5.2	<i>E-commerce and addressing privacy and security concerns</i>	109
12.5.3	<i>Film and television industries</i>	109
12.5.4	<i>Victoria as a competitive tourist destination</i>	109

CHAPTER 13 PARLIAMENTARY DEPARTMENTS..... 112

13.1	Output management framework	112
13.2	Corporate and business plans.....	112
13.3	Budget overview	113
13.4	Human resources.....	114
13.5	Key issues facing the Department.....	114
13.6	Progress of the ParlyNet project.....	115

13.7 Delays in publishing parliamentary reports 116

APPENDICES

APPENDIX 1 ESTIMATES QUESTIONNAIRE 1999-2000 118

APPENDIX 2 ACRONYMS AND ABBREVIATIONS 126

**APPENDIX 3 LIST OF PERSONS AND DEPARTMENTS PROVIDING
SUBMISSIONS/EVIDENCE..... 127**

**APPENDIX 4 GOVERNMENT RESPONSE TO PAEC REPORT NO. 27
ON THE 1998-99 BUDGET ESTIMATES..... 131**

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

MEMBERSHIP 54TH PARLIAMENT

Mr P J Loney, MP (Chairman)
Hon. W Forwood, MLC (Deputy Chairman)
Hon. L Asher, MP*
Ms A P Barker, MP*
Ms S M Davies, MP*
Hon. R M Hallam, MLC*
Mr T J Holding, MP*
Mrs J M Maddigan, MP*
Hon. G K Rich-Phillips, MLC*
Hon. T C Theophanous, MLC

*These Members were appointed to the Public Accounts and Estimates Committee prior to the tabling of this report and took no active part in the Inquiry, which was conducted during the 53rd Parliament.

Report on the 1999-2000 Budget Estimates

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

MEMBERSHIP – 53RD PARLIAMENT

The Members of the Public Accounts and Estimates Committee during the term of this Inquiry were:

Hon. W Forwood, MLC (Chairman)

Hon. R Best, MLC

Mr R J Hulls, MP

Mr P J Loney, MP

Hon. N B Lucas, PSM, MLC

Mr S J McArthur, MP

Mr B Mildenhall, MP

Hon. T C Theophanous, MLC

Mr K A Wells, MP

For this Inquiry the Committee was supported by a secretariat comprising:

Ms M Cornwell, Executive Officer

Mr P Rorke, Research Officer on secondment from
the Victorian Auditor-General's Office

Ms F Essaber, Assistant Executive Officer

Ms S Kestle, Secretarial Assistant

Specialist Adviser:

Professor James Guthrie from Macquarie University provided advice on certain aspects of the Management Reform Program.

The Committee's address is :

Level 8
35 Spring Street
Melbourne Victoria 3000

Telephone enquiries: (03) 9651 3556

Facsimile: (03) 9651 3552

Email: paec@parliament.vic.gov.au

Internet: <http://www.parliament.vic.gov.au/paec/default.htm>

DUTIES OF THE COMMITTEE

The Public Accounts and Estimates Committee is a joint parliamentary committee constituted under the *Parliamentary Committees Act 1968*, as amended.

The Committee comprises ten Members of Parliament drawn from both Houses of Parliament and all parties and an independent Member.

The Committee carries out investigations and reports to Parliament on matters associated with State financial management. Its functions under the Act are to inquire into, consider and report to the Parliament on:

- a) any proposal, matter or thing connected with public administration or public sector finances;
- b) the annual estimates or receipts and payments and other budget papers and supplementary estimates of receipts and payments presented to the Assembly and the Council.

The Committee, in consultation with the Auditor-General, also determines the objectives of performance audits and identifies any particular issues that need to be addressed during these audits.

Report on the 1999-2000 Budget Estimates

GLOSSARY

Accrual Accounting	Recognition of revenue, expenses, assets and liabilities when a transaction occurs, irrespective of the timing of the related cash flow.
Annual appropriation	The appropriations to departments and the Parliament contained in the <i>Appropriation Act</i> and <i>Appropriation (Parliament) Act</i> . These appropriations lapse at the end of each financial year.
Annual Financial Statements	Comprises operating statement, statement of financial position and statement of cash flow for a given financial year.
Australian Health Care Agreement	A bilateral agreement between the Commonwealth and Victorian Governments for the funding of public hospital services.
Budget sector	Comprises agencies within the general government sector that each obtain 50 per cent or more of funding through appropriations and are directly accountable, through Ministers, to Parliament.
Capital asset charge	A charge generally on the written down value of non-current, physical assets controlled by agencies within the budget sector. The cost is designed to reflect the full cost of service provision and to encourage the management of surplus or under performing assets.
Cash flow statement	A statement that provides information on the cash inflows and outflows as they relate to operating, investing and financing activities.
Commonwealth	An independent authority established by the

Grants Commission	Commonwealth Government in 1933 to make recommendations to the Commonwealth concerning special grants to the less populous States. In recent years its principal role has been to make recommendations for the distribution of financial assistance grants among the States.
Consolidated Fund	The government's primary account that receives all consolidated revenue and from which payments appropriated by Parliament for government purposes are made.
Contingent liabilities	Obligations which become payable in circumstances which are deemed possible but not probable. They commonly arise when the government gives a guarantee to secure borrowings by a third party.
Corporatisation	A process that aims to provide a government business enterprise with a more commercial focus. Key elements include an independent board of directors, explicit performance targets, tax-equivalent payments and a requirement to comply with the provisions of the Corporations Law.
Franchising	The sale to an external party (usually on the basis of a competitive bidding process) of the right to distribute a particular good or service to a particular market for a defined period. Franchising is often seen as a way of introducing competition into an industry that may otherwise be seen as a monopoly.
General purpose payments	Grants made by the Commonwealth Government to State Governments to be passed to third parties, such as non-government schools.
Government business enterprise	A publicly-owned entity providing goods or services on commercial terms with the objective of recovering its costs of production and, in most cases, of providing some financial return to its owner.
Identified	A grant from the Commonwealth to the States as a general purpose payment, but for an

funding grant	identified area of broad activity. The Commonwealth does not make these grants conditional on specific performance conditions being met.
National Competition Policy	An agreement by all States and the Commonwealth to systematically apply the principles of competition across all areas of the economy.
Net debt	Net debt equals gross debt minus liquid financial assets (cash, bank deposits, marketable securities and sinking fund investments).
Non-current physical assets	Durable goods intended to be employed in the production process for longer than a year. Excluded are current assets and non-reproducible tangible assets.
Operating statement	A financial statement which reports the operating revenue of an entity for a particular period.
Outcomes	The government's intended impact on the community as a result of the funding of services. Outcomes establish both the rationale and foundation for the budget.
Output group	For purposes of budgeting and reporting, a grouping of individual outputs that contribute to a common outcome.
Outputs	Measurable direct results of activities provided to external consumers, such as products or services.
Performance measures	Quantity, quality and timeliness indicators used to describe how many, how well, when, or how frequently government funded outputs will be delivered.
Performance targets	Intended output delivery levels expressed in terms of each of the performance measures. Targets are used as a benchmark to assess

	performance in delivered budgeted outputs.
Public account	The consolidated fund and the trust fund combined.
Public sector	Non-financial public enterprises and public financial institutions that have government ownership and control.
Receipts credited appropriations	<p>Appropriated limit that recognises either revenue or capital from:</p> <ul style="list-style-type: none">• agreed user charges for a department's provision of outputs to third parties directly in return for payment;• specific purpose payments from the Commonwealth;• payments from municipal councils; and• proceeds from the sale of assets. <p>Amounts are deemed to be appropriated from the consolidated fund.</p>
Special appropriation	A standing authority (that remains in force until amended or repealed by Parliament) for ongoing payments to be made independently of the government's annual budget priorities.
Specific purpose payments	Grants made by the Commonwealth to State and Territory governments subject to terms and conditions specified by the Commonwealth, generally to ensure that Commonwealth policy objectives (or national objectives agreed between the Commonwealth and the States) are met.
Unfunded liabilities	Liabilities that are accruing but for which no explicit provision has been made for payment.
Unfunded superannuation liabilities	The present value of future benefits, determined by actuarial assessment, that a superannuation scheme's members have accrued during past service which are not covered by fund assets.

Unfunded superannuation liabilities arise when superannuation costs are not contributed as the members' benefits accrue.

Report on the 1999-2000 Budget Estimates

CHAIRMAN'S INTRODUCTION

In keeping with past reports, the Committee's review of the budget estimates for 1999-2000 has been wide ranging and again focused on aspects of the management reform program. The review highlighted the considerable change which has occurred in the public sector as increasing emphasis is placed on finding more innovative and cost effective ways of delivering government services. Greater use of the private sector, increased devolution of authority, greater dependence on communications and information technology are just some of the factors which are changing the public sector environment. None of these changes diminishes the responsibility of government to be accountable for its actions and expenditure, but it does make accountabilities more complex, particularly when several agencies are jointly responsible for shared outcomes.

As one of the primary purposes of this report is to facilitate a greater understanding of the accrual budgets of departments, the Committee has made a number of recommendations to further improve the presentation of, and the information contained in, the Budget Papers to ensure that these documents continue to enhance accountability and disclose relevant information. The Committee has again raised the need for linkages to be strengthened between strategic plans, corporate plans, the budget papers, the performance monitoring regime and reporting in annual reports.

It is of great concern to this Committee that so few corporate and business plans were made available for the estimates hearings. Without this information it is very difficult for the Committee to set performance information in context and to assess whether goals have been achieved.

There are many challenges ahead for the government and the public sector as they redesign the way in which they deliver services to the community and improve the availability and quality of those services. As these changes evolve it will be increasingly a challenge for the Parliament and, in particular, this Committee to ensure that it has an effective estimates scrutiny process. Suggested changes to the estimates process, which were foreshadowed in the report on

Annual Reporting in the Victorian Public Sector¹, will soon be considered by this Committee.

As Chairman of the Committee, I wish to pay tribute to the energy, commitment and effectiveness of the former Public Accounts and Estimates Committee and, in particular, the previous chairman the Honourable Bill Forwood, for the work that they had undertaken in relation to this Inquiry. Many of the recommendations contained in this report are intended to add momentum to reforms previously promoted by that Committee.

On behalf of the Committee, I would like to express our appreciation to Ministers and departmental officials for their attendance and cooperation at the estimates hearings and for providing detailed written responses to the Committee's questionnaire. The Committee also wishes to record its appreciation for the work of Committee staff, Michele Cornwell, Executive Officer, and Frances Essaber and for the comprehensive research support provided by Mr Peter Rorke, an officer on secondment from the Victorian Auditor-General's Office; and for advice provided by Professor James Guthrie on issues relating to the Management Reform Program.



Peter Loney
Chairman

¹ Public Accounts and Estimates Committee, Report No.28 *Annual Reporting in the Victorian Public Sector*, May 1999, p.60.

EXECUTIVE SUMMARY

Chapter 1 : Review of Budgets Estimates

The Public Accounts and Estimates Committee analysed the 1999-2000 Budget Estimates using departmental responses to a questionnaire and evidence given at public hearings attended by Ministers, departmental officers and the Heads of the Parliamentary Departments, from May through to August 1999.

Since the conclusion of formally taking evidence for this inquiry and the preparation of the draft report, there has been an election, a change of government and amendments to the Parliamentary Committees Act and this has contributed to the delay in presenting this report to the Parliament. Although the draft report was considered on two occasions by the Public Accounts and Estimates Committee of the 53rd Parliament and agreed to in August 1999, the dissolution of the Parliament on 24 August 1999 prevented that Committee from formally adopting the report.

The recently appointed PAEC of the 54th Parliament has considered the draft report and notes that the election of the Bracks Government will have important policy implications that will impact on some of the information contained in this report, for example the government's decision to abolish the self-governing schools program. However, as the report is an analysis of the budget estimates for 1999-2000 and reflects the evidence presented to the former Public Accounts and Estimates Committee during the period May to August 1999, this Committee has not made substantial changes to the report.

Of the recommendations contained in the Committee's previous report on the 1998-99 Budget Estimates, 25 were accepted; 6 were partly accepted and 6 were rejected.

Chapter 2 : Budget Overview

The Committee was advised that the operating surplus for 1999-2000 is expected to be \$128.7 million, which is \$640.8 million lower than the revised estimate for 1998-99 of \$769.5 million. After allowing for capital expenditure of \$966.9 million in 1999-2000, the

Government expects a sustainable cash surplus of \$66.7 million in 1999-2000 and an average of \$105 million for the remainder of the forward estimates period.

Total operating revenue is expected to decline by around \$165.4 million or 0.8 per cent in 1999-2000 due primarily to a decline in projected public authority income resulting from privatisations during 1998-99, and the impact of a reduction in the payroll tax rate resulting in a reduction in revenue of \$89 million.

At the Premiers Conference in April 1999, it was agreed that the total financial assistance grants pool and health care grants for 1999-2000 would be distributed in accordance with new relativities recommended by the Commonwealth Grants Commission in its 1999 Report on General Revenue Grant Relativities. The application of these new relativities will result in a reduction of \$100 million in Victoria's share of financial assistance grants in 1999-2000.

Revenue from general purpose grants is expected to increase only marginally. After allowing for inflationary factors, grants will increase by only 0.2 per cent. Such a small increase is primarily due to the \$100 million decline in financial assistance grants, but offset to some extent by an expected additional \$56 million in National Competition Policy payments.

Victoria's share of National Competition Policy payments is expected to total \$110 million in 1999-2000.

Specific purpose grants (excluding those that are on-passed) are expected to increase by 2 per cent or \$57 million from the revised budget estimate. This reflects the on-going effect of the Australian Health Care Agreement signed in 1998-99 and the continuation of a 1 per cent efficiency dividend applied by the Commonwealth to most specific purpose payments.

Total operating expenses are expected to increase by around \$475.5 million to a total of \$19 360.9 million.

The Committee notes that additional funding of \$382.7 million has been provided for service delivery initiatives in education, health, police, and the science, engineering and technology sectors. In addition, new capital projects (with a total estimated cost of \$1 357 million) are scheduled to commence in 1999-2000. The 1999-

2000 budget allocation towards the cost of these projects is \$360.2 million.

The Committee notes that the net asset position of the State is expected to increase by around \$129 million. As at 30 June 2000, assets with an aggregate value of \$32 867 million will be under the control of the Government, representing an increase of \$43 million over the previous year's revised total of \$32 824 million.

As at 30 June 2000, total liabilities will be \$23 644.6 million. This represents an overall reduction of \$85.9 million when compared with the previous year's revised total of \$23 730.5 million. The decrease is mainly due to a reduction in long term borrowings, which are expected to decline from \$6 509.2 million in 1998-99 to \$6 117.4 million by the end of June 2000. A net increase in employee entitlements of \$133.2 million and an increase in superannuation liabilities of \$175 million will offset the reduction to some extent.

The Committee notes that public sector debt has fallen by more than 80 per cent over the past five years, from \$32.5 billion as at 30 June 1995 to an estimated \$6.1 billion by 30 June 2000 and is projected to decline to \$5.4 billion by 30 June 2003.

As a result of the significant reduction in the State's debt burden and the improvement in the State's credit rating, interest costs have continued to fall significantly. Budget sector interest and finance costs are forecast to be \$532.1 million in 1999-2000.

Chapter 3 : Review of Budget Papers

The Committee believes the information presently provided in corporate and business plans, departmental annual reports and the Budget Papers, could be significantly improved by including:

- more detailed explanations for significant items contained in the Budget Papers including detailed explanations for significant variances from the previous year;
- the need for the Department of Treasury and Finance to clarify the purpose of reporting administered balances in the Budget Papers and ensure that full disclosures are made; and

- departments should include full explanations of the results achieved for all output statements and performance measures against those detailed in the Budget Papers.

Chapter 4 : Capital Assets Charge

In the 1999-2000 Budget, \$ 1.56 billion was allocated to cover the cost of the Capital Assets Charge (CAC) for departments.

The Committee believes that the Department of Treasury and Finance should continue to monitor the application of the CAC and, in particular, the appropriateness of the charge to specific asset categories. Monitoring arrangements should include:

- periodic review of the rate to be applied;
- review of the nature of assets and appropriateness of applying the CAC to particular types of assets (e.g. assets of a non-discretionary nature); and
- evaluation of the outcomes in terms of better asset management practices.

Chapter 5 : Department of Treasury and Finance

As a result of the changing nature of the Department's activities, some changes have been made to the output information, performance measures and targets contained in the Budget Papers.

Of the one hundred and forty-eight performance measures established for 1999-2000, seventy-eight are new measures while seventy also applied to 1998-99. The Committee is concerned that there is no reporting of achievements against the remaining eighty performance measures that were applicable to the 1998-99 year in the Budget Papers.

The Committee was informed that the Department is to be provided with funding of \$15 million over the next two years for policy development and implementation relating to the tax reforms.

The Committee noted that the Department's total output costs will fall significantly in 1999-2000 mainly as a result of the winding down of the Government's major privatisation program. Privatisation services in 1999-2000 are expected to cost \$27.7 million, a decrease of \$77.8 million from the previous year. Further

privatisations will involve the franchising of public transport and the sale of V/Line Freight.

Reports prepared by the Year 2000 Unit indicated that, as at 14 June 1999, public sector agencies were 97 per cent complete in achieving Year 2000 readiness by 30 June 1999, excluding preparation of contingency plans. The Unit also reported that contingency plans had been completed for around 89 per cent of identified critical systems and/or processes.

Taxes collected in relation to gambling activities conducted within Victoria, which form part of taxation receipts, represent a significant component of the State's total revenue. In previous estimates reports, the Committee has commented on the increasing reliance of the Government on this source of revenue and notes that during 1997-98, the total revenue from gambling activities was \$1.3 billion and represented 5 per cent of total State operating revenues of \$25.6 billion. Revenue from gambling activities has now become the third most significant revenue source to Government, with payroll tax and taxes on property the only categories generating higher levels of revenue.

Chapter 6 : Department of Education

Around thirty-five per cent of the Department's performance measures for 1999-2000 are new. However, there is no information provided to identify the basis on which the targets were established. It is therefore difficult for the Committee to determine the appropriateness of the targets set. For example, for the major output *Intensive Early Literacy and Numeracy Services* a performance measure of quality is "student attainment at text level 1 at end Prep in reading" with a target of 80 per cent for 1999-2000. Without a basis for establishing the objectivity of the target, such as a link to national or international standards, the target is of limited value to users of the Budget Papers. It gives no indication of whether this is a reasonable standard of achievement. The same comment can be applied to pre-existing performance measures.

While the Department has improved its qualitative measures, the Committee considers there are some measures that require further review.

The Committee was advised that apprenticeships and traineeships are growing significantly throughout Victoria. New training agreements in 1998 were 28 per cent higher than in 1997. An amount of \$18.1 million has been allocated to accommodate this growth.

The Committee was interested to learn of the Government's commitment to spend \$100 million over a five year period for the provision of laptop computers to all of the State's teachers and to achieve a computer-to-student ratio of 1 to 5 across all schools by the year 2000. To assist in meeting these targets, \$51.4 million in funding was committed in the 1998-99 budget to provide Victorian schools with access to computers, the Internet, on-line curriculum materials, technology training for teachers and new systems for school administrations. In addition, an extra \$17.2 million has been allocated in the 1999-2000 Budget to provide IT technical support to schools.

The then Minister for Education advised the Committee that \$216.6 million has been allocated for information technology strategies for schools over the next five years, with \$104 million for technical support over the next four years.

The Committee was advised that so far the Department has provided around \$24.6 million to schools for computer education purposes. To date, approximately one-third of the State's teachers and principals have received notebook computers and associated training. A further 6 000 teachers and principals will receive notebooks and training by April 2000.

The Government has set a target for Victorian students to be in the top five in the world in mathematics and science at Year 9 by 2010. To assist in achieving this target, the Budget provides \$21.8 million over the next three years. The initiative is designed to improve the quality of teaching and learning in science from Prep to Year 10.

The Department has committed \$11.1 million over two years towards self-governance in schools. Currently some 51 schools representing 35 600 students have signed three year educational service agreements relating to the delivery of educational services for each of the schools.

The Department intends to provide an extended training program for council members of self-governing schools to skill them in their new roles, responsibilities and accountability obligations.

The Committee was advised that the Department is close to finalising a strategic plan for outsourcing services. The plan will be a culmination of a major review of services to determine their suitability for outsourcing.

Chapter 7 : Department of Human Services

The Department has retained the same output groups as in 1998-99 except for the merging of the *Coordinated Care Services* and *Aged Care Services* output groups into *Aged Care and Primary Health Services*.

The Department will receive an increase of \$197.3 million representing additional funding under the Australian Health Care Agreement and funds provided by the State Government to meet increased demand in acute health services to fund initiatives in the 1998-99 and 1999-2000 budget. Additional funding is also being provided to reduce hospital waiting lists.

In 1999-2000, substantial funding is to be provided to meet the demand-growth for increased services. New initiatives in the budget total \$103.2 million and include \$64.8 million for public hospitals, \$5.2 million for ambulance services and \$15.9 million for a range of programs including the growth in the home and community care program, aged services programs and support services for the disabled.

The Department of Human Services is the primary recipient of Commonwealth specific purposes grants within Victoria. In 1999-2000, the Department expects to receive \$1.85 billion for recurrent purposes and \$218 million for capital works programs.

Chapter 8 : Department of Infrastructure

In line with the Government's commitment in the Passengers' Charter announced in 1998, operators of the newly franchised country train and metropolitan train and tram services will be expected to deliver agreed levels of service based on set passenger service requirements.

The Committee notes that a significantly high proportion of the Department's budgeted outputs are delivered by external providers

under contractual arrangements. After the privatisation of public transport, the figure is expected to be greater than 90 per cent.

The Committee was advised that the franchising agreements for the operation of Melbourne's train and tram services were finalised in June and July and the five contracts came into effect on 29 August 1999. At which time the private operators became responsible for rolling stock valued at \$1.29 billion.

The private operators of both train and tram services will be required to introduce new rolling stock as part of their contractual obligations. For metropolitan trains, a total of \$859 million will be spent on new rolling stock. In addition, \$275 million will be spent on upgrading trams and \$158 million will be spent by V/Line Passenger Corporation to upgrade country trains.

The Office of the Director of Public Transport has been established within the Department of Infrastructure to monitor the government's contracts with the franchisees and ensure they comply with service standards.

The Committee was advised that the costs to repair vandalism to automatic ticket machines at metropolitan railway stations during the period November 1998 to February 1999 was initially met by Onelink, which has until the end of 1999 to submit a claim arising from the damage repair bill.

The Public Transport Corporation incurred costs totalling \$3.4 million for the employment of security guards to protect the machines while security modifications were being made to machines that were not damaged.

Chapter 9 : Department of Justice

The 1999-2000 Budget provides funds to recruit 400 additional police officers over the next two years. An amount of \$11.9 million has been allocated in the 1999-2000 Budget and a further \$21.8 million in 2000-2001.

The Committee was advised that a continuing increase in the prison population necessitates the development of both short and medium term strategies to deal with the present and future prison crowding problems. To address these problems, initiatives contained in the 1999-2000 Budget include an additional \$6.7 million.

In examining the powers of Auditors-General relating to the audit of non-judicial functions of courts in other jurisdictions, the Committee notes that restrictions placed on the Auditor-General in Victoria are not experienced elsewhere in Australia or New Zealand. Despite a number of attempts to reach an effective solution on this issue, the Department of Justice and the Auditor-General's Office have been unable to reach agreement. The Auditor-General expressed the view that the only means of remedying the situation is by way of legislative amendment. The Committee intends to raise this matter with the Attorney-General and, if necessary, report to the Parliament later in 2000 on the outcome of these discussions.

Chapter 10 : Department of Natural Resources and Environment

The value of Victoria's share of the Murray Darling Basin Commission's assets is around \$170.3 million. However, these assets are not reported in the Department's annual financial statements. The Committee was advised that the Department of Treasury and Finance will review the nature of the government's interest in the Murray Darling Basin Commission in the light of a forthcoming Australian Accounting Standard and make an assessment on what assets should be recognised in the State's financial statements.

The Department has received 47 Native Title claims as at the end of May 1999. These claims represent around fifty per cent of Crown Land in Victoria, covering approximately 4.3 million hectares. To date only one of these claims has been heard and is currently under appeal in the Supreme Court.

Chapter 11 : Department of Premier and Cabinet

The Committee noted that for 51 performance measures, the Department set achievement targets of 100 per cent. While the Committee is pleased to learn that the Department has committed itself to such high targets of performance, it questions whether these targets are realistic and achievable.

In 1999-2000, the Department will develop strategies to strengthen the public sector internally to enable more responsive and cost effective service to the community.

The Committee was advised that the cost of the development of the new Museum complex located at Carlton Gardens has increased and there have been delays in completion of the works, and that the

expected final cost of completion was around \$287.7 million, an additional \$37.7 million. The Committee understands that given the complexity of the project and problems encountered with the excavation site, completion of the project has been delayed by 6 months. It is expected that the Museum will be opened to the public in July 2000.

During 1997-98, \$96.9 million was paid into the Community Support Fund (CSF), an increase of \$9.2 million over the previous year. The Committee noted that during the 1998-99 financial year, 46 grants were approved totalling \$54.6 million. An increase in grants payments of around \$32.4 million is expected during 1999-2000.

The Committee was advised that since the commencement of the Community Support Fund, expenditure totalling around \$1.8 million had been allocated to research the social impact of gambling. The Committee was further advised that around \$60 million has been allocated for anti-gambling programs managed by the Department of Human Services.

Chapter 12 : Department of State Development

The Committee notes that the Government is committed to the implementation of a regulation regime for business and industries based on voluntary codes and legislation. To facilitate this, the following initiatives have been undertaken:

- preparation of data protection and electronic framework legislation;
- appointment of a Victorian Privacy Commissioner; and
- establishment of an e-signature recognition body.

The Department considers the Sydney 2000 Olympics a prime tourist opportunity for Victoria which will benefit this State financially. The Department estimates that there will be between 300,000 and 400,000 additional tourists in Victoria between 1999-2003 and has developed a number of strategies to maximise opportunities for Victorian tourism. The Department aims to consolidate its gains in the domestic and international tourist markets through placing Victorian tourism on-line over the next two years.

Chapter 13 : Parliamentary Departments

The parliamentary departments indicated that performance benchmarking has been introduced in the Parliamentary Departments' Corporate Plan and that efforts have been made to identify appropriate benchmarking partners. However, it was pointed out to the Committee that benchmarking with other parliamentary departments is difficult because of widely differing services, costing and accounting.

The ParlyNet project is a computer networking system linking Members electorate offices across the State and provides access to a new range of parliamentary, government and business services. Currently there is no connection of ParlyNet to external parties apart from the 132 Members of Parliament and their electoral office staff. The Committee is concerned that at present the full benefits of ParlyNet are not being realised due to the restriction on access to the system. The Committee noted that staff of Opposition Members located in Parliament House, and Parliamentary Secretaries located in Ministers' Offices, are not connected to ParlyNet and therefore are unable to use the system.

The Committee has on several occasions in the past, raised the necessity for a procedural mechanism that would allow parliamentary committees, when the Parliament is not sitting, to present their reports to the Presiding Officers and the reports would then be deemed to be presented to the Parliament. The Committee views this as a priority matter and has recommended that the *Parliamentary Committees Act 1968* be amended to enable this procedure to be implemented early in the next session of Parliament.

Report on the 1999-2000 Budget Estimates

RECOMMENDATIONS

Chapter 1: Review of the Budget Estimates

The Committee recommends that:

Recommendation 1.1:

page 4

The Ministerial Directions on Financial Reporting be amended to require half yearly performance reports - including financial statements in an abbreviated form, comparisons with budget revenues and outlays, and progress against output and outcome performance targets - to be prepared by departments and provided to the Public Accounts and Estimates Committee.

Recommendation 1.2:

page 5

The Department of Treasury and Finance review the output measures used in the 1999-2000 Budget Papers to compare those presented by agencies in their corporate and business plans, annual reports and other management and accountability documents. The purpose of the review would be to establish best practice in output, outcome, and performance measurement and reporting for the Victorian Public Sector.

Recommendation 1.3:

page 8

The outputs, performance measures, targets and actual figures reported in the Budget Papers and annual reports be independently audited or evaluated.

Chapter 2: Budget Overview

The Committee recommends that:

Recommendation 2.1:

page 17

The Budget Papers include detailed explanations for significant variances in funding levels from the previous year's budgeted figures.

Recommendation 2.2:

page 21

Departments and agencies continue their efforts in identifying assets under their control to ensure that all assets are recognised and reported in relevant annual reports and the Government's consolidated balance sheet.

Chapter 3: Review of Budget Papers

The Committee recommends that:

Recommendation 3.1:

page 26

As part of the budget development process for 2000-2001, all departments review their outcome objectives to ensure that they are suitable and able to be measured in a meaningful way.

Recommendation 3.2:

page 26

Budget Paper No. 3 be structured in a manner that more fully describes the link between inputs, outputs and outcomes. In addition, the annual report of each department should include full explanations of the results achieved for all output statements and performance measures against those detailed in the Budget Papers.

Recommendation 3.3
page 27

More detailed explanations be provided for significant items contained in the Budget Papers including detailed explanations for significant variations from the previous year.

Recommendation 3.4
page 28

The Budget Papers provide further explanations of the amounts detailed in the administered financial statements of all departments. In addition, the Department of Treasury and Finance needs to clarify the purpose of reporting administered balances in the Budget Papers and ensure that full disclosures are made.

Recommendation 3.5
page 29

The meaning of significant terms be clearly explained, including, where necessary, an explication of relevant assumptions related to those terms, either within a clearly referenced glossary, or within each set of departmental estimates.

Chapter 4: Capital Assets Charge

The Committee recommends that:

Recommendation 4.1:
page 34

The Department of Treasury and Finance continue to monitor the application of the Capital Assets Charge (CAC) and, in particular, the appropriateness of the charge to specific asset categories and advise the Public Accounts and Estimates Committee accordingly.

Monitoring arrangements should include:

- **periodic review of the rate to be applied;**
- **review of the nature of assets and appropriateness of applying the CAC to particular types of assets (e.g. assets of a non-discretionary nature); and**
- **evaluation of the outcomes in terms of better asset management practices.**

**Recommendation 4.2:
page 35**

Before the Capital Assets Charge is replaced with a Government Finance Charge, a review be undertaken by Department of Treasury and Finance to determine the most appropriate application of a capital charge on the State's public assets.

Chapter 5: Department of Treasury and Finance

The Committee recommends that:

**Recommendation 5.1:
page 40**

The Department of Treasury and Finance ensure that details of actual performance against measures established for the previous period, are included in the Budget Papers.

**Recommendation 5.2:
page 40**

Wherever possible, links be provided between superseded measures and newly established measures to ensure a basis for comparison.

**Recommendation 5.3:
page 40**

Explanations be included in the Budget Papers as to why previously established performance measures are no longer suitable.

**Recommendation 5.4:
page 42**

The Department of Treasury and Finance continue to refine its performance measures, to ensure they are:

- **developed after taking into account the needs of all stakeholders affected by the activities;**
- **meaningful i.e. the measurement contributes to an understanding of the Department's performance in relation to the Key Government Outcome of the output group;**
- **understandable i.e. are not ambiguous and clearly identify what is being measured; and**
- **measurable in a meaningful way.**

**Recommendation 5.5:
page 42**

As Corporate and Business Plans are not always available in time for the Public Accounts and Estimates Committee's review of the Budget Estimates, it is important that the methodology for establishing targets be reported in the Budget Papers.

**Recommendation 5.6:
page 42**

Where performance targets have been achieved and there is a reasonable expectation of improvement, the performance targets be increased for the next financial year.

Recommendation 5.7:

page 43

In the interest of accountability, the Department of Treasury and Finance complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

Chapter 6: Department of Education

The Committee recommends that:

Recommendation 6.1:

page 52

The Department of Education provide information in the Budget Papers to indicate the basis upon which performance targets have been established.

Recommendation 6.2:

page 53

The Department of Education continues to refine its performance measures and, in particular, the qualitative measures be reassessed to ensure they are true indicators of quality. Where necessary, supporting information should be provided to explain how the outputs measured contribute to the achievement of quality outcomes.

Recommendation 6.3

page 55

The Department of Education develop suitable benchmarks in the Adult Community Education Sector that will facilitate performance measurement.

Recommendation 6.4:

page 55

The Department of Education complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the

**Public Accounts and Estimates
Committee.**

**Recommendation 6.5:
page 63**

As a matter of priority, all parties resolve the issue of the reporting of unfunded superannuation liabilities in Victorian universities accounts.

Chapter 7: Department of Human Services

The Committee recommends that:

**Recommendation 7.1:
page 66**

The Department of Human Services complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

Chapter 8: Department of Infrastructure

The Committee recommends that:

**Recommendation 8.1:
page 76**

The Department of Infrastructure be required to complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

Chapter 9: Department of Justice

The Committee recommends that:

**Recommendation 9.1:
page 85**

The Department of Justice complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

Chapter 10: Department of Natural Resources and Environment

The Committee recommends that:

Recommendation 10.1:

page 93

The Department of Natural Resources and Environment complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

Recommendation 10.2:

page 97

The Department of Treasury and Finance review the nature of Victoria's interest in the assets of the Murray Darling Basin Commission (MDBC) to determine to what extent the Department of Natural Resources and Environment has control of MDBC assets, the value of those assets and the reporting obligations of the Department in relation to these assets.

Chapter 11: Department of Premier and Cabinet

The Committee recommends that:

Recommendation 11.1:

page 100

The Department of Premier and Cabinet review its performance targets in relation to those measures for which one hundred percent achievement is expected, to ensure whether such targets are appropriate, achievable and can be reliably measured.

Recommendation 11.2:

page 100

The Department of Premier and Cabinet complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

Recommendation 11.3:

page 103

The Office of Public Employment undertake a skills audit to determine the level of skills and the future requirements of the Victorian Public Sector.

Chapter 12: Department of State Development

The Committee recommends that:

Recommendation 12.1:

page 109

The Department of State Development complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

Chapter 13: Parliamentary Departments

The Committee recommends that:

Recommendation 13.1:

page 115

The Parliamentary Departments continue to develop performance criteria and benchmarks to enable assessment of their performance.

Recommendation 13.2:

page 119

As a priority the following matters be addressed:

- (a) the capacity of ParlyNet to take additional users; and**
- (b) the security concerns associated with the use of the ParlyNet facilities by external parties.**

Recommendation 13.3:

page 120

As a priority, the *Parliamentary Committees Act 1968* be amended to enable parliamentary committees, when the Parliament is not sitting, to present their reports to the Presiding Officers and these reports would then be deemed to be presented to the Parliament and their publication authorised.

CHAPTER 1 REVIEW OF BUDGET ESTIMATES

1.1 Introduction

Following the delivery of the Budget Speech by the Treasurer, Hon. Alan Stockdale on 4 May 1999, the Committee circulated a questionnaire to all Departments requesting supplementary information to that provided in the Budget Papers. Responses from Departments were generally satisfactory. However, the Committee emphasises that high quality and timely information is essential to enable an effective examination and evaluation of the Budget Estimates.

Beginning with its next estimates report, the Committee intends to include comment on the standard and presentation of information contained in departments' responses.

In undertaking the analysis of the 1999-2000 budget estimates, the Committee utilised the information provided in responses to the questionnaire and evidence given by nine Ministers together with officers of the departments and agencies concerned, the Secretary of the Department of Premier and Cabinet and the Heads of each of the Parliamentary Departments, at public hearings held from May to August 1999.

In preparing the report, the Committee has also taken into consideration the following documents:

- Annual Reports, Corporate Plans and Business Plans for those Departments which provided a copy to the Committee;
- Report of the Auditor-General on the Government's Annual Financial Statement 1997-98;
- A Guide to Corporate and Business Planning, Draft, 12 April 1996, Department of Treasury and Finance; and
- Victorian Auditor-General, Report on Ministerial Portfolios, May 1999.

Copies of the Hansard transcripts of evidence are tabled for the information of Members.

Since the conclusion of formally taking evidence for this inquiry and the preparation of the draft report, there has been an election, a change of government and amendments to the Parliamentary Committees Act and this has contributed to the delay in presenting this report to the Parliament. Although the draft report was considered on two occasions by the Public Accounts and Estimates Committee of the 53rd Parliament and agreed to in August 1999, the dissolution of the Parliament on 24 August 1999 prevented that Committee from formally adopting the report.

The recently appointed PAEC of the 54th Parliament has considered the draft report and notes that the election of the Bracks Government will have important policy implications that will impact on some of the information contained in this report, for example the government's decision to abolish the self-governing schools program.

As the report is an analysis of the budget estimates for 1999-2000 and reflects the evidence presented to the former Public Accounts and Estimates Committee during the period May to August 1999, this Committee has not made substantial changes to the report.

1.2 Legislative requirements – response to Committee’s recommendations

Section 40 (2) of the Parliamentary Committees Act 1968 provides that:

“Where a report to the Parliament of a Joint Investigatory Committee...recommends that a particular action be taken by the Government with respect to a matter, the appropriate responsible Minister of the Crown shall, within six months of the report of the Committee being laid before both Houses of Parliament, report to the Parliament as to the action (if any) proposed to be taken by the Government with respect to the recommendations of the Committee.”

Consequently, there is a legislative requirement that the responsible Ministers provide a response within six months to the recommendations contained in this report.

1.3 Previous recommendations

The Committee's previous report on the Budget estimates for 1998-99 was tabled on 18 November 1998 and contained 37 recommendations. On 14 May 1999, the Government tabled its response to these recommendations, which is at Appendix 4. The response indicated that three actions were possible: accept; accept in part; or reject.

The Committee is pleased that a number of recommendations were accepted by the Government:

25 recommendations were accepted;
6 recommendations were partly accepted; and
6 recommendations were rejected.

Of particular interest to the Committee was the response from the Department of Treasury and Finance to Chapters 1, 2, 3 and 4 which dealt with accrual output based budgeting, the Management Reform Program and Whole of Government Reporting. An analysis of the response from the Department indicates that out of the Committee's 11 recommendations relating to these chapters, 4 were accepted, 4 accepted in part and 3 were rejected.

The following represents the Committee's reconsidered position in respect of the key recommendations from last year.

Rejected Recommendation 1.2 – 1998-99 Budget Estimates

That the Ministerial Directions on Financial Reporting be amended to require half yearly performance reports - including financial statements in an abbreviated form, comparisons with budget revenues and outlays, and progress against output and outcome performance targets - to be prepared by Departments and provided to the Public Accounts and Estimates Committee.

This recommendation was rejected (for the second time) by the Department of Treasury and Finance. (refer appendix 4 for complete response). It appears to be rejected on the grounds of the cost of extending half yearly financial reporting and unreliability of data. The Department of Treasury and Finance has again ignored the major thrust of the recommendation which was about

performance reporting, not just half yearly financial statements. The Committee once again reiterates that this information should be provided.

The Committee recommends that:

Recommendation 1.1:

The Ministerial Directions on Financial Reporting be amended to require half yearly performance reports - including financial statements in an abbreviated form, comparisons with budget revenues and outlays, and progress against output and outcome performance targets - to be prepared by departments and provided to the Public Accounts and Estimates Committee.

Rejected Recommendation 1.3 – 1998-99 Budget Estimates

That departments finalise their corporate and business plans in conformity with the Guide to Corporate and Business Planning in time for the Budget Estimates inquiry process and provide a completed copy to the Public Accounts and Estimates Committee.

In response to this recommendation, the Department of Treasury and Finance (the Department) indicated that in many instances, Corporate Plans are made public by departments. However, the release of corporate plans is a matter for individual departments and it is up to each department to decide whether or not to make their plans available to the Committee. The Department further advised that business plans are internal working documents and that some departments reserve the right to classify their detailed business plans as confidential documents.

The Committee expresses its concern at the response provided by the Department. Corporate and Business plans represent a vital element in the planning, budgeting and reporting process and the availability on a timely basis is essential for the Committee to complete its evaluation of the State's Budget Estimates. The Committee rejects the view that detailed business plans of departments are confidential and therefore not subject to external

scrutiny. Further comment on this issue is made in section 1.4 of this Report.

Rejected Recommendation 2.1 – 1998-99 Budget Estimates

That the Department of Treasury and Finance review the output measures used in the 1998-99 Budget Papers to compare those presented by agencies in their corporate and business plans, annual reports and other management and accountability documents. The purpose of the review would be to establish best practice in output, outcome, and performance measurement and reporting for the Victorian public sector.

The Department has accepted 'in part' this recommendation. The Department is of the view that performance reporting has been strengthened by provisions in Ministerial Directions which require annual reports to mirror the disclosure of outputs and performance against those established in the 1998-99 Budget Paper No. 3. However, the Department has ignored the main thrust of the recommendation which was looking to the Department to review the 1998-99 Budget Papers and other documents to evaluate output measures and for the purpose of developing 'best practice' standards in output, outcome and performance measurement and reporting in the Victorian public sector. The Committee rejects the argument that the main benefit of output management will be continuous internal management improvement.

The Committee recommends that:

Recommendation 1.2:

The Department of Treasury and Finance review the output measures used in the 1999-2000 Budget Papers to compare those presented by agencies in their corporate and business plans, annual reports and other management and accountability documents. The purpose of the review would be to establish best practice in output, outcome, and performance measurement and reporting for the Victorian Public Sector.

Rejected Recommendation 2.2 – 1998-99 Budget Estimates

That budget papers include actual performance achieved against targets for outputs and outcomes, and explanations of why previously stated output targets and explanations have changed or not been achieved.

The Department of Treasury and Finance rejected this recommendation stating that the timing of the Budget precludes the publication of performance information for the previous year compared to Budget Estimates. The Department expressed the view that actual performance should be reported in agency annual reports and portfolio statements in departmental annual reports.

The Committee will review the 1998-99 annual reports of departments and agencies to determine whether the Ministerial Direction requiring departments to report performance against targets as detailed in the 1998-99 Budget Papers has been followed in practice. However, the Committee remains of the view that the monitoring of the previous years performance targets is appropriate information for inclusion in the budget papers.

Partly Rejected Recommendation 3.1 – 1998-99 Budget Estimates

That the Government prepares a timetable for the full implementation of the output management reform program and establishes standards of best practice so the link between the various accountability and management documents is transparent.

The Department of Treasury and Finance ‘accepted in part’ this recommendation and indicated that it will document the next steps over 3 years to enable full implementation of output management reform in the Victorian public sector.

Over the past few years, the Victorian Government has introduced sweeping public sector reforms which have changed the way government services are provided. These reforms have accelerated the move to a more ‘business-like’ public sector and include initiatives such as output management, competitive tendering, the outsourcing of activities, and the corporatisation of Government Business Enterprises (GBEs) through to complete privatisation.

Under these changes, the business of government is moving dramatically from direct program delivery to service contract management. It is therefore imperative that the Parliament and the community have the means to assess how well policies, programs and services are being delivered.

In the past, Budget Estimates and annual reporting by agencies have focused heavily on inputs, processes and compliance rather than on outputs, outcomes and accountability for performance. Even though agencies are now shifting their emphasis to the management of results, the Victorian public sector is still primarily concerned with financial reporting rather than providing quality information about performance.

The Committee believes that the Department needs to act urgently on Recommendation 3.1 contained in the report on the 1998-99 Budget Estimates, and provide a realistic timetable for full implementation of the reform program.

Rejected Recommendation 3.2 – Budget Estimates 1998-99

That the outputs, performance measures, targets and actual figures reported in the budget papers and annual reports be independently audited or evaluated.

The Committee believes that this is an important recommendation and is concerned that it was rejected.

The Department indicated that, while considerable work needs to be undertaken to refine definitions and measures, critique of departmental output statements occurred in the context of budget formulation. The Department further indicated that the Management Reform Program should not be seen as a compliance exercise. However, the Committee remains of the view that, to ensure transparency of information and accountability of performance, outputs, performance measures, targets and actual results reported in the Budget Papers and departmental annual reports must be subject to independent scrutiny. The Committee re-emphasises the need for independent evaluation of the above performance information.

The Committee recommends that:

Recommendation 1.3:

The outputs, performance measures, targets and actual figures reported in the Budget Papers and annual reports be independently audited or evaluated.

1.4 Availability of corporate and business plans

The Committee expresses disappointment at the continuing failure by departments to provide their corporate and business plans to the Committee in time for the estimates hearings.

In response to the Committee's questionnaire, all departments indicated that corporate and business plans would be forwarded to the Committee once they were completed. However, at the date of preparing this report, the Committee had only received the 1999-2000 business plans for Victoria Police and the 1999-2000 Corporate Plans prepared by the Victorian Auditor-General's Office and the Parliamentary Departments. Further comments on the availability and assessment of plans are provided in the sections relating to departments.

Departmental Corporate and Business plans represent a vital element in the planning, budgeting and reporting process. The Committee is of the view that the availability of the plans on a timely basis is essential for the Committee to complete its evaluation of the Budget.

CHAPTER 2 BUDGET OVERVIEW

2.1 Basis of preparation of the budget estimates

This is the second time the Budget Estimates have been presented in the new accrual format and the first time that the Government has been able to forecast or project a consolidated balance sheet for the budget sector.²

The Committee notes that the 1999-2000 Budget has been framed on the basis of the following long-term objectives established by the Government:

- maintain a sustainable budget operating surplus sufficient to fully fund infrastructure investment;
- maintain public sector debt at levels consistent with a triple-A credit rating;
- provide quality, value-for-money services relevant to community needs;
- ensure adequate infrastructure to support service delivery and economic growth; and
- bring Victoria's tax rates into alignment with the national average.

2.2 1998-99 budget outcomes and overall position

As detailed in the 1998-99 Budget Papers, the Government expected an underlying budget surplus of \$550.7 million, compared with the revised budget surplus, before abnormals, of \$769.5 million. The \$218.8 million improvement in the budget position was mainly attributable to the following factors:

- stronger than expected revenue growth (\$633 million);
- significant increases in supplies and consumables (\$938 million), offset to some extent by a decrease in

² Mr I. Little, Secretary, Department of Treasury and Finance, transcript of evidence, 20 May 1999, p.2

grants and transfer payments (\$251 million); and lower than expected interest and financing expenses (\$125 million) as a result of debt retirement.

The revised budget surplus of \$6,281.3 million for 1998-99 also includes revenue of \$5,511.8 million abnormal receipts from the privatisations of the gas businesses, Aluminium Smelters of Victoria (Aluvic) and the Victorian Plantations Corporation, which were not included in the original 1998-99 Estimates.³

Exhibit 2.1 highlights the components of both the estimated and revised budgets for 1998-99, together with the corresponding budget estimates for 1999-2000.

³ 1999-2000 Budget Paper No.2, Budget Statement, p.188

Exhibit 2.1

(\$ million)

Operating Statement	1998-99 Budget Estimate	1998-99 Budget Estimate (Revised)	1999-2000 Budget Estimate
Revenue			
Taxation	8491.5	8597.9	8691.0
Regulatory fees and fines	244.1	245.0	246.6
Public authority income	940.5	955.4	646.8
Grants	7275.1	7448.5	7606.7
Sale of goods and services	1687.4	1796.1	1812.9
Net surplus from disposal of physical assets	0.0	22.8	32.0
Fair value of assets received free of charge	0.0	0.1	0.1
Other revenue	382.9	589.1	453.6
Total Revenue	19021.7	19655.0	19489.6
Less Expenses			
Employee entitlements	7145.1	7116.0	7418.9
Superannuation	1622.4	1559.7	1437.4
Depreciation	762.7	696.0	720.0
Amortisation	22.2	33.1	32.9
Interest and other finance costs	821.9	697.1	532.1
Grants	3547.2	3296.0	3309.3
Supplies and consumables	4549.5	5487.5	5910.2
Other expenses	0.0	0.0	0.0
Total Expenses	18471.0	18885.4	19360.9
Operating Surplus before abnormals	550.7	769.5	128.7
Abnormal items	0.0	5511.8	0.0
Operating surplus after abnormals	550.7	6281.3	128.7

Source: 1999-2000 Budget Paper No. 2, Budget operating statement, table 3.1 (p. 29) and table B1 (p.188)

The operating surplus for 1999-2000 is expected to be \$128.7 million, which is \$640.8 million lower than the revised estimate of \$769.5 million for 1998-99.

The Committee understands that the major factors contributing to the reduced budgeted surplus in 1999-2000 are additional funding

for service delivery initiatives of \$382.7 million, taxation relief totalling around \$89 million, and a moderate decline in expected operating revenue.⁴

After allowing for capital expenditure of \$966.9 million in 1999-2000, the Government expects a sustainable cash surplus of \$66.7 million in 1999-2000 and an average of \$105 million for the remainder of the forward estimates period.⁵

2.3 Revenue

Exhibit 2.1 above shows that total operating revenue is expected to decline by around \$165.4 million or 0.8 per cent in 1999-2000. The major factors contributing to this expectation are:

- a decline of \$308.6 million in projected public authority income, resulting from privatisations during 1998-99 and reduced dividends from the water industry and the Transport Accident Commission;
- the impact of a reduction in the payroll tax rate from 6 per cent to 5.75 per cent resulting in a reduction in revenue of \$89 million;
- an expected slowdown in property market activity resulting in reduced property related stamp duty receipts; and
- other revenues, comprising mainly rent on crown leases, coal and forest royalties and interest received, are expected to decline by \$135.5 million.⁶

Following the 1997 High Court ruling that the State's Business franchise fees were invalid, 'safety net' arrangements were made for the Commonwealth Government to collect similar taxes to be forwarded to the States. While these arrangements have not significantly impacted on the levels of revenue (with the exception of a one-off loss of \$155 million due to transitional effects in 1998-99), nevertheless, Victoria's reliance on Commonwealth payments has substantially increased to around 45 per cent of the State's total

⁴ Ibid, p.28

⁵ Ibid, p.19

⁶ Ibid, p.30

revenue base. The Committee is aware that under the Commonwealth National Tax Reform legislation, these safety net arrangements will be abolished.

Since 1995, an increase in financial assistance grants for distribution to the States has been based on population growth and inflation. This per capita increase is also dependent on the States meeting their competition policy reform obligations. Distribution of the “grants pool” is determined annually at the Premiers Conference, based on relativities recommended by the Commonwealth Grants Commission. At the Premiers Conference held in April 1999, it was agreed that the total financial assistance grants pool and the agreed amount of health care grants for 1999-2000 would be distributed in accordance with new relativities recommended by the Commission in its 1999 Report on General Revenue Grant Relativities.

The Committee understands that the application of these new relativities will result in a reduction of \$100 million in Victoria’s share of financial assistance grants in 1999-2000. The Victorian Government has expressed concern regarding the revised methodology employed by the Commonwealth to determine the level of grants to be distributed.

In addition, the Committee observed that the distribution formula favours the less populous States at the expense of Victoria and New South Wales. On a per capita basis, Victoria has the second lowest level of subsidy at \$167 per capita with New South Wales at \$122 per capita.⁷ This compares with the Northern Territory and Tasmania whereby residents will benefit by \$4,659 and \$738 respectively.⁸

Revenue from general-purpose grants is expected to increase only marginally. After allowing for inflationary factors, grants will increase by only 0.2 per cent (2.0 per cent in nominal terms). Such a small increase is primarily due to the \$100 million decline in financial assistance grants, but offset to some extent by an expected additional \$56 million in National Competition Policy

⁷ Mr I. Little, Secretary, Department of Treasury and Finance, transcript of evidence, 20 May 1999, p.9

⁸ 1999-2000 Budget Paper No.3, Budget Estimates, p.396

payments. Victoria's share of National Competition Policy payments is expected to total \$110 million in 1999-2000.

Specific purpose grants (excluding those that are on-passed) are expected to increase by 2.0 per cent or \$57 million from the revised budget estimate. This reflects the on-going effect of the Australian Health Care Agreement signed in 1998-99 and the continuation of a 1 per cent efficiency dividend applied by the Commonwealth to most specific purpose payments.

Although not impacting on the 1999-2000 Budget, the National Tax Reform legislation will have significant and far-reaching consequences for all States and Territories in future. The introduction of the Goods and Services Tax (GST) will fundamentally change the nature of Commonwealth-State financial arrangements and the revenue raising activities of all Australian governments.

The Committee understands that the Inter-governmental Agreement, signed at the April 1999 Premiers Conference, details the arrangements for the reform of Commonwealth-State financial relations. As part of the Agreement, the Commonwealth has given the States a guarantee that, during the transitional years following the introduction of the GST, the budgetary position of the States will be no worse than it would have been without the reforms. In this respect, the Commonwealth will make available a combination of interest free loans and grants to the States to ensure that this is achieved.

This Agreement should ensure that the interests of Victoria will be protected during the introductory phase of national tax reform.

2.4 Expenditure

As indicated in Exhibit 2.1, total operating expenses are expected to increase from \$18 885.4 million (revised 1998-99) to \$19 360.9 million in the coming year, an increase of \$475.5 million or 2.5 per cent. This increase is mainly attributable to:

- additional funding totalling \$382.7 million for service delivery initiatives announced in the Budget;
- capital initiatives in the form of funding for projects outside the budget sector with a net impact on operating expenses of \$80.8 million;
- the flow through effect of spending initiatives announced in last year's budget on 1999-2000 operating expenses (\$38 million);
- a \$24 million increase in depreciation expense, in line with projected growth in the budget sector asset base; and
- a general increase in overall operating expenses caused by economy-wide price and wage inflation.

The increases in operating expenditure will be partly offset by:

- an expected decline of around \$165 million in interest and other finance costs resulting from the application of privatisation proceeds to reduce budget sector debt;
- a reduction in superannuation expenses of \$122.3 million as a result of payments to the State Superannuation Fund in 1998-99 to reduce the unfunded superannuation liability; and
- the discontinuation of a number of one-off or non-recurring costs including final fiscal contribution payment to the Commonwealth Government (\$74.4 million) and payments in relation to the termination of leasing and financing arrangements for the Monash Medical Centre (\$170 million).⁹

2.5 Revised budget figures

In line with the Committee's previous recommendations, the presentation of the 1999-2000 Budget Papers has been enhanced by the inclusion of detailed revised budgeted figures for all departments. This information is now contained in Budget Paper No. 3. The revised figures take into account any additional funding provided as a result of Government decisions and any economic

⁹ 1999-2000 Budget Paper No.2, Budget Statement, p.31

developments which impact on both revenue and expenses since the presentation of the previous Budget.

In previous years, information on revised estimates was provided in summary form only in Budget Paper No. 2. The Committee believes this additional disclosure enhances accountability and provides more timely and relevant information.

While acknowledging the inclusion of revised figures in the 1999-2000 Budget Papers for all departments, the Committee believes that additional details need to be included to explain significant variations from the original budgeted figures. For example, the Committee noted that table B1 on page 188 of Budget Paper No. 2 lists a range of figures including the revised 1998-99 operating statement. Included in the statement is the line item - supplies and consumables, showing an upward adjustment of \$938 million in the purchase of supplies and consumables across the budget sector. Explanations for the variance are stated on page 192 of Budget Paper No. 3, however, this explanation accounts for only \$250 million of the total amount.

The Committee raised this matter at the estimates hearing with the Treasurer and requested further details of the reasons for the \$938 million variance. In response to a question taken on notice, the Committee received the following advice:

The \$938 million increase was due to

- transfers from asset investment to operating expenses from the Department of Infrastructure, amounting to \$152.6 million, relating to changes in the treatment of these items in the financial statements. This includes an offset of \$14.1 million for land compensation expenditure;
- the reclassification of expenses from grants and employee entitlements to more appropriately reflect actual expenditure increased supplies and consumables by approximately \$455 million;
- grants received under the Australian Health Care Agreement (\$87 million), Commonwealth grants to government schools (\$10 million) and an extra \$8 million from the Commonwealth in relation to the September 1998

Victorian gas emergency. This increase in grants is applied to additional supplies and consumables expenditure;

- as a result of an increase in the sale of goods and services (approximately \$108.7 million) an equivalent increase in supplies and consumables expenditure has occurred. This is because the revenue received from fee for service pays for an increase in the delivery of supplies and consumables;
- an expected increase in funding requirements for Y2K compliance and assistance for East Gippsland flood relief of approximately \$87.8 million; and
- additional funding for other items amounting to \$29 million.¹⁰

However, in the opinion of the Committee, the explanations provided in the letter did not satisfactorily explain why such a significant increase was required from the original estimates.

The Committee noted further instances throughout the Budget Papers where explanations for variances from the previous year's figures were not provided. In the opinion of the Committee, detailed information must be provided in the Budget Papers to explain significant variances.

The Committee recommends that:

Recommendation 2.1:

The Budget Papers include detailed explanations for significant variances in funding levels from the previous year's budgeted figures.

Exhibit 2.2 highlights the new funding initiatives for each department in 1999-2000.

¹⁰ Letter to the Committee from Hon. R. Hallam, Acting Treasurer, 20 July 1999.

Exhibit 2.2

(\$ million)

New funding for output initiatives as part of the 1999-2000 Estimates	Service Delivery	Infrastructure Projects
Education	62.6	71.0
Human Services	114.8	79.5
Infrastructure	70.7	129.0
Justice	33.1	9.6
Natural Resources and Environment	21.1	9.7
Premier and Cabinet	19.1	33.1
State Development	27.6	16.6
Treasury and Finance	29.9	10.0
Parliament	3.8	1.7
Total	382.7	360.2

Source: 1999-2000 Budget Paper No. 2, table 5.1 (p.67) and table 5.2 (p.67)

The Committee notes that, in 1999-2000, new spending initiatives will concentrate on the areas of education, health, police, and the science, engineering and technology sector. In addition, new capital projects (with a total estimated cost of \$1 357 million) will commence in 1999-2000. The 1999-2000 budget allocation towards the cost of these projects is \$360.2 million.¹¹

2.6 Budget sector statement of financial position

As mentioned, 1999-2000 represents the first time that the State has been able to project a balance sheet for the budget sector. Exhibit 2.3 presents details of the State's expected financial position for the year ending 30 June 2000.

¹¹ 1999-2000 Budget Paper No.2, Budget Statement, p.67

Exhibit 2.3

(\$ million)

Item	1998-99 revised	1999-2000 Budget
Current assets		
Cash and deposits	844.9	846.2
Investments	942.3	891.9
Receivables	726.6	648.8
Prepayments	54.1	54.1
Inventories	117.4	118.4
Other	8.0	8.0
Total current assets	2693.3	2567.4
Non current assets		
Investments	430.8	430.8
Receivables	525.4	423.8
Physical assets and other	29174.3	29444.9
Total non current assets	30130.6	30299.5
Total assets	32823.8	32866.9
Current liabilities		
Payables	921.3	941.8
Borrowings	947.3	946.7
Employee entitlements	649.0	623.1
Superannuation	665.1	724.1
Other	171.4	170.6
Total current liabilities	3354.1	3406.3
Non current liabilities		
Payables	664.9	649.4
Borrowings	6509.2	6117.4
Employee entitlements	1492.0	1651.1
Superannuation	11603.5	11719.5
Other	106.7	100.7
Total non current liabilities	20376.4	20238.2
Total liabilities	23730.5	23644.6
Net assets	9093.3	9222.3

Source: 1999-2000 Budget Paper No. 2, table 4.2 page 52

The Committee notes that the net asset position of the State is expected to improve over the coming financial year. As indicated in Exhibit 2.3, net assets will increase by around \$129 million or 1.4 per cent.

The major reasons for the improved asset position are:

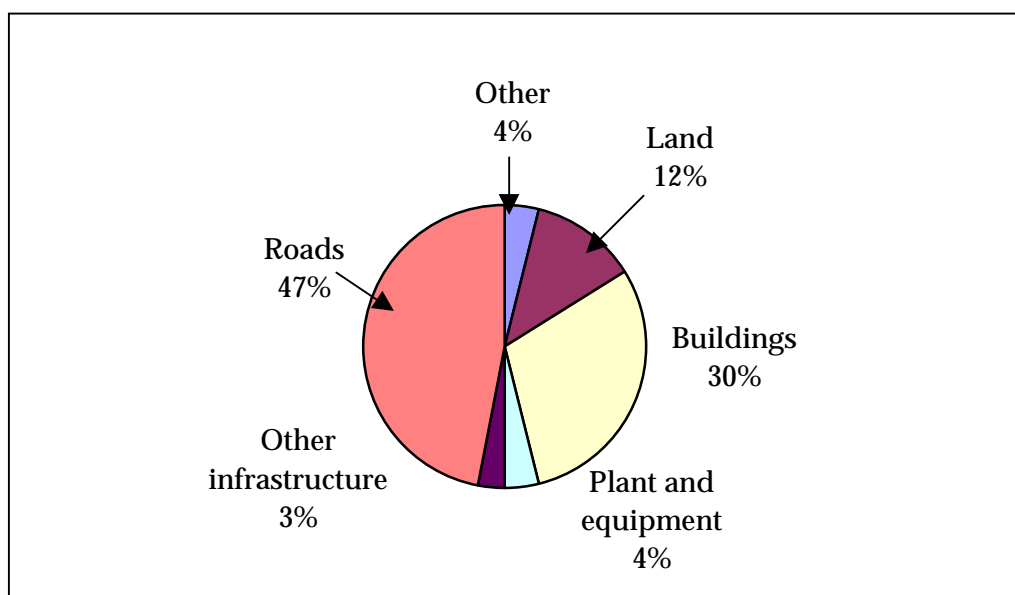
Budget Sector Assets

The Budget Papers disclose that, as at 30 June 2000, assets with an aggregate value of \$32 867 million will be under the control of the government, representing an increase of \$43 million or 0.13 per cent over the previous year's revised total of \$32 824 million.

Total current assets are expected to decrease by around \$125.9 million or 4.7 per cent. The major movements are in relation to a reduction in receivables of \$77.8 million and a fall in investments of \$50.3 million.

Exhibit 2.4 presents a summary of the State's budget sector non-current physical assets controlled by the government.

Exhibit 2.4



Non-current physical assets are estimated to be 90 per cent of total assets as at 30 June 2000 and represent the most significant component of the Budget sectors assets. The State's road network accounts for 47 per cent of these assets.



A key part of the government's agenda for improving the management and accountability of departments for the total resources they control, has been the implementation of the asset identification, valuation and reporting program. Under this program, the major assets of the State have been identified and recognised in departmental financial statements and in the government's Annual Financial Statement.¹²

The Committee notes that, in recent years, significant work has been undertaken by departments to improve their asset management practices. However, the Committee is aware that certain assets have not yet been recognised in the State's accounts, eg. parcels of Crown land that are the responsibility of the Department of Natural Resources and the Environment, the State's share of assets managed by the Murray Darling Basin Commission and land under roads.¹³

The Committee recommends that:

Recommendation 2.2:

Departments and agencies continue their efforts in identifying assets under their control to ensure that all assets are recognised and reported in relevant annual reports and the Government's consolidated balance sheet.

2.7 Budget sector liabilities

The Budget papers disclose that, as at 30 June 2000, total liabilities will be \$23 644.6 million. This represents an overall reduction of \$85.9 million when compared with the previous year's revised total of \$23 730.5 million. The decrease is mainly due to a reduction in long term borrowings, which are expected to decline from \$6 509.2 million in 1998-99 to \$6 117.4 million by the end of June 2000. A net increase in employee entitlements of \$133.2 million and an increase in superannuation liabilities of \$175.0 million will offset the reduction to some extent.

¹² Victorian Auditor-General, Report on the Victorian Government's Finances, 1997-98, p.110

¹³ Ibid, p.111

2.8 Privatisation receipts

The Committee notes that proceeds from privatisation levels in 1998-99 totalled \$6 759 million. Of this amount \$1 274 was applied to repay debts of the privatised entities, \$3 124 million to repay budget sector debt and \$2 154 million allocated to reducing the State's unfunded superannuation liabilities.¹⁴ As a result, the net asset position has risen from \$2.8 billion to a little over \$9 billion at 30 June 2000.

The Treasurer advised the Committee that the government's privatisation program is nearing completion. Apart from the franchising arrangements for public transport (the proceeds from which are not expected to substantially reduce debt), there are no remaining large-scale privatisations.¹⁵

2.9 Debt management

The Treasurer advised the Committee that debt is now at manageable levels.¹⁶ The Committee notes that Public Sector debt has fallen by more than 80 per cent over the past five years, from \$32.5 billion as at 30 June 1995 to an estimated \$6.1 billion by 30 June 2000 and is projected to reach \$5.4 billion by 30 June 2003.¹⁷

The Committee is aware that in March 1999, Moodys Investor Service revised its rating outlook for Victoria from stable to positive. This follows Standard and Poor's upgrade to AAA in April 1998.

As a result of the significant reduction in the State's debt burden and the improvement in the State's credit rating, interest costs have continued to fall significantly. Budget sector interest and finance costs are forecast to be \$532.1 million in 1999-2000 and projected to absorb just 2.7 per cent of the State's projected total revenue for that year, well down on the peak of \$2 billion or 14.1 per cent of total revenue for the 1992-93 financial year.¹⁸

¹⁴ 1999-2000 Budget Paper No. 2, Budget Statement, p.56

¹⁵ Hon. A. Stockdale, Treasurer, transcript of evidence, 20 May 1999, p.13

¹⁶ Ibid, p.13

¹⁷ 1999-2000 Budget Paper No. 2, Budget Statement, p.45

¹⁸ Ibid, p.56

2.10 Unfunded superannuation liabilities

The unfunded liability of Victoria's superannuation schemes represents the present value of future benefits that its members have accrued, which are not covered by fund assets. Unfunded liabilities have arisen in Victoria's defined benefit superannuation schemes because the State's share of superannuation costs were not contributed as benefits accrued, but only when a benefit was actually paid.¹⁹

As from November 1995, budget sector departments and agencies assumed responsibility for meeting the accruing superannuation cost through payments from their annual budget. The costs of prior service (prior to November 1995) remain the responsibility of the State. The Committee notes that prior service costs are currently funded via an annual top-up payment that is based on the level of benefit payments expected to be made each year.

The total unfunded superannuation liability of Victoria's public sector (defined benefits) superannuation schemes is expected to marginally increase from \$11.6 billion as at 30 June 1999 to \$11.7 billion by 30 June 2000.

On the assumption that the emerging superannuation costs will continue to be funded, the unfunded liabilities associated with the defined benefits schemes are expected to grow on a nominal basis to around \$13 billion by 30 June 2003, an average annual rate of 1.3 per cent.²⁰ Notwithstanding the substantial allocations of proceeds from privatisation sales applied to reducing unfunded superannuation liabilities, the reason for an overall upward trend is mainly due to government superannuation contributions failing to keep pace with the increase in the accruing liabilities of the superannuation funds in relation to retired employees.²¹ The Committee was advised that accruing liabilities of past and present employees are also contributing to this upward trend.

The budget papers indicate that in nominal terms, the level of unfunded superannuation liabilities is projected to peak in 2008.

¹⁹ Ibid, p.57

²⁰ Ibid, p.58

²¹ Victorian Auditor-General, Report on the Victorian Government's Finances, 1997-98, p.150

The Minister for Finance advised the Committee of the government's intention to fund superannuation costs on an emerging basis in future, which means that the unfunded liability will eventually be extinguished by 2045.²²

The Committee notes that the superannuation liabilities reported in the budget sector balance sheet exclude the Commonwealth's share of unfunded superannuation liabilities reported by the Universities. Further comment on this issue is made on page 63 of this Report.

²² Hon. R. Hallam, Minister for Finance, transcript of evidence, 20 May 1999, p.21

CHAPTER 3 REVIEW OF BUDGET PAPERS

3.1 Adequacy of disclosures in the Budget Papers

In previous reports, the Committee has made a number of recommendations relating to corporate and business plans, departmental annual reports and the format and presentation of the Budget Papers. These recommendations were predicated on the need for both the Parliament and the public to be given the opportunity to progressively monitor departmental performance against government policy objectives. At present, only the Budget Papers and departmental annual reports provide some of the required information. The Committee believes that there is potential for significant enhancement of the information presently provided in these documents.

In reviewing the presentation and disclosures contained in the Budget Papers for 1999-2000 the Committee noted that generally the format of the 1999-2000 Budget Papers is essentially the same as 1998-99. The Committee observed that in many instances, the determination of key government outcomes under output groups are defined in extremely broad terms, which therefore makes it difficult to assign a unit of measure to facilitate performance measurement. For example, included in the Department of Education's output groups is Tertiary Education and Training for which the following outcomes are listed:

- meeting the employment needs of the economy;
- preparation for the knowledge society, particularly in science, mathematics and information technology;
- a literate and numerate Victorian community;
- socially and culturally aware Victorians;
- lifelong learning; and
- best-in-class education and training service delivery.²³

²³ 1999-2000 Budget Paper No. 3 Budget Estimates , page 36

In the opinion of the Committee, the above list of outcomes more closely resemble aspirations or visions and the Committee believes that the Department may have difficulty in evaluating the extent to which these outcomes are realised.

The Committee recommends that:

Recommendation 3.1:

As part of the budget development process for 2000-2001, all departments review their outcome objectives to ensure that they are suitable and are able to be measured in a meaningful way.

The Budget Papers do not adequately explain the causal relationship between inputs (resources available), outputs (goods and services) and outcomes (impacts on the community). In the Committee's view, the quality of budget information would be enhanced if better-structured linkages could be demonstrated and more fully explained in the Budget Papers.

The Committee recommends that:

Recommendation 3.2:

Budget Paper No. 3 be structured in a manner that more fully describes the link between inputs, outputs and outcomes. In addition, the annual report of each department should include full explanations of the results achieved for all output statements and performance measures against those detailed in the Budget Papers.

The Committee acknowledges that the Budget process is experiencing on-going revision and reform. However, constant and significant changes to the type and quantity of performance information produced from year to year reduce the accountability value of the resulting documents.

The Committee believes that agencies should commit to the stabilisation of output and performance measures reported in their budget estimates and that changes are only made in

response to prevailing circumstances, and explanations provided for the changes.

The Committee endorses the role of the Auditor-General in auditing performance indicators and believes that over time this will lead to significant improvements.

Budget Paper No. 3 provides a schedule of costs for each output group of each department. The schedule is provided on a group summary basis and additionally for each individual departmental output group. The Committee notes that costing information is presented on a highly aggregated basis which is classified uniformly across all departments as - employee related expenses, purchases of supplies and services, depreciation, capital asset charge and other expenses.

The Committee believes that a more detailed breakdown of these costs would assist Members' understanding of the information. For example, the expense classification - 'Other' - which in the case of the output group - Local Governance, Planning and Development in the Department of Infrastructure, is an amount of \$36.4 million and represents 48 per cent of the total costs of this output group. However, the budget papers do not provide any information on this expenditure. Numerous examples may be found throughout the budget papers where the term 'other' is the only explanation provided for significant expenditure.

The Committee recommends that:

Recommendation 3.3

More detailed explanations be provided for significant items contained in the Budget Papers including detailed explanations for significant variations from the previous year.

The Budget Papers now include a departmental operating statement, statement of financial position and statement of cash flows. These statements are prepared on a basis consistent with Australian Accounting Standard AAS29 - *Financial Reporting by Government Departments*.

The Committee understands that these statements are prepared on the basis of transactions and balances which a department controls (controlled statements) and those transactions and balances which a department administers on behalf of others (administered statements). The Committee believes that for administered financial statements, there is a need for additional disclosures explaining the transactions and balances which are incorporated in the Budget documents. The Committee notes, for example, that the administered statement of the financial position for the Parliamentary Departments includes receivables totalling \$4.414 million. On investigation, the Committee found that this amount relates to audit fees owing to the Auditor-General's Office. However, this explanation is not provided in the Budget Papers.²⁴

The Committee notes also that the administered statements of the financial position of the departments, as provided in the budget papers, are incomplete as they do not include all balances of the agencies and therefore may mislead the users of the budget papers. The Committee believes that the Department of Treasury and Finance needs to clarify the purpose of reporting administered balances to ensure that full disclosures are made.

The Committee recommends that:

Recommendation 3.4

The Budget Papers provide further explanations of the amounts detailed in the administered financial statements of all departments. In addition, the Department of Treasury and Finance needs to clarify the purpose of reporting administered balances in the Budget Papers and ensure that full disclosures are made.

Although expert users of budget papers may have an awareness of the meaning of the term "revised" and the measurement period to which it relates, many users of these reports will not fully understand the term. The meaning of this term is not clearly explained within the text of

²⁴ Ibid, page 372

departmental budget estimates. The Committee believes that interpretability of budget data would improve if the meaning of this and other significant terms, together with any important assumptions associated with those terms, was disclosed clearly within a glossary contained within the budget papers, or within each departmental statement if necessary.

The Committee recommends that:

Recommendation 3.5

The meaning of significant terms be clearly explained, including, where necessary, an explication of relevant assumptions related to those terms, either within a clearly referenced glossary, or within each set of departmental estimates.

Report on the 1999-2000 Budget Estimates

CHAPTER 4 CAPITAL ASSETS CHARGE

4.1 Capital Assets Charge

In 1993, the Victorian Commission of Audit recommended that:

“A capital charge, based on the Government’s cost of capital, should be levied on all existing capital assets to allocate the cost of using capital to operating agencies. At the same time, operating agencies should be given discretion to sell or find alternative uses for the capital assets owned by them.”²⁵

This led to the introduction, on a trial basis, of a capital charge known as the Interim Capital Charge (ICC), in 1994-95. The key objective of this initiative was to make public sector managers aware of the cost of capital invested in government assets. ICC was based on funds provided in budget capital allocations.

On 1 July 1998, the ICC was replaced by the Capital Asset Charge (CAC) which is currently applied uniformly to all government departments. The CAC represents an ‘above-the-line’ expense in each department’s annual operating statement and is charged on the basis of the written down value of each department’s non-current physical assets.

Capital charging is a management tool that allows the government’s costs of capital invested in controlled, non-current assets to be estimated. It measures the opportunity cost – the return that could be achieved were the government to direct its capital towards the next best investment of comparable risk.

Capital charges should lead to more efficient asset management for the following reasons:

- complete information on assets held is available;
- the full cost of holding assets is highlighted; and
- agencies can reduce the capital charge through more efficient asset management (i.e. by disposing of

²⁵ Report of the VCA, Vol 2, May 1993, p.310

surplus assets, by increasing asset utilisation and by substituting existing assets with cheaper assets).²⁶

In the 1999-2000 Budget, \$1562.3 million was allocated to cover the cost of the CAC for departments. Exhibit 4.1 quantifies the financial impact of the CAC on departments.

Exhibit 4.1

Department	1998-99 Budget (\$million)	1999-00 Budget (\$million)	Variation (Percentage)
Education	474.6	497.3	4.8
Human Services	257.7	270.5	5.0
Infrastructure	549.8	549.3	-0.1
Justice	53.5	54.4	1.7
Natural Resources and Environment	49.3	69.3	40.6
Premier and Cabinet	49.1	77.5	57.8
State Development	1.0	1.2	20.0
Treasury and Finance	14.1	42.0	197.9
Parliament	11.0	0.8	-92.7
Total	1460.1	1562.3	7.0

Source: 1999-2000 Budget Paper No. 3, Budget Estimates, constructed from operating statements for each department.

As Exhibit 4.1 illustrates, the total expected CAC for 1999-2000 is \$1.56 billion, an increase of \$102.2 million or 7 per cent from the previous year. This reflects the expected increase in the State's asset base over the coming year.

The Committee understands that the overriding aim of the capital charge is to enable full cost transparency, which is a policy in line with competitive neutrality costing principles. At the departmental level, the use of a capital charge:

- has the potential to prompt public sector managers to make more informed decisions on surplus or under-performing assets;

²⁶ Ian Ball, Principal, Public Sector Performance (NZ) Ltd, Paper on Modern Financial Management Practices, April 1998, p.15

- should motivate managers to consider their asset base more carefully and to value their assets appropriately. This is important where depreciation charges are cash funded to agencies and the imposition of a capital charge controls any tendencies to overvalue assets in order to gain extra depreciation or asset replacement funding;
- should provide stimulus for managers to optimize maintenance schedules and expenditure on assets, since maintaining existing assets in good working order typically requires less investment of capital than replacing equipment; and
- offers a means of rewarding the effective management of existing assets as under the receipts retention arrangements departments are able to retain output revenues resulting from improvements in their balance sheet position.²⁷

The Committee fully endorses the introduction of the Capital Assets Charge to facilitate better asset management practices within the Budget sector and expects that, over time, there will be some fine tuning of the arrangements.

The Committee is aware that the CAC rate is determined by the Department of Treasury and Finance and is currently set at 8 per cent. In response to a question regarding the appropriateness of the rate, the Committee was advised that, after consulting with the private sector and academic experts, the Department of Treasury and Finance accepted a rate of 8 per cent, as recommended by the Productivity Commission, to be applied to all departments.²⁸ The Committee noted that the rate of 8 per cent has not altered since its introduction in the 1994-95 financial year. However, when the rate was first determined, the Department decided that the appropriateness of the level of the charge would be reviewed after two years. During this year's budget process an

²⁷ The Capital Assets Charge in 1998-99, Victoria, Department of Treasury and Finance, p.1

²⁸ Mr. G Hehir, Deputy Secretary, Budget and Financial Management Division, Department of Treasury and Finance, transcript of evidence, 20 May 1999, p.23

internal review concluded that it was appropriate to maintain the rate at the current level.²⁹

The Committee recommends that:

Recommendation 4.1:

The Department of Treasury and Finance continue to monitor the application of the Capital Assets Charge (CAC) and, in particular, the appropriateness of the charge to specific asset categories and advise the Public Accounts and Estimates Committee accordingly.

Monitoring arrangements should include:

- **periodic review of the rate to be applied;**
- **review of the nature of assets and appropriateness of applying the CAC to particular types of assets (e.g. assets of a non-discretionary nature); and**
- **evaluation of the outcomes in terms of better asset management practices.**

The Committee is aware that in 2000-2001, it is planned to replace the CAC with a Government Finance Charge (GFC), a charge based on net assets held by a department. The Committee believes that before the CAC is replaced with a GFC, a comprehensive review be undertaken to determine the most appropriate application of a capital charge on the State's public assets.

The Committee recommends that:

²⁹ Mr. G Hehir, Deputy Secretary, Budget and Financial Management Division, Department of Treasury and Finance, transcript of evidence, 20 May 1999, p.24

Recommendation 4.2:

Before the Capital Assets Charge is replaced with a Government Finance Charge, a review be undertaken by Department of Treasury and Finance to determine the most appropriate application of a capital charge on the State's public assets.

The Committee's questionnaire requested details of how departments expect to manage their assets to minimize the amount of capital assets charge payable. Responses provided by the departments were as follows:

- **Treasury and Finance** - Divisions are provided with details of CAC charges which are a component of their output costs. Divisions are responsible for management of these costs which will be reviewed against business requirements. It is proposed that this information be supported by details of asset values which form the basis for calculating CAC.³⁰
- **Education** – The Department has adopted a four pronged strategy to manage its physical assets:
 - to rationalise existing facilities and minimise the need for new facilities by exploring alternative delivery options;
 - to upgrade and refurbish existing schools and TAFE institutes to meet changing needs;
 - to replace assets which have outlived their construction life; and
 - to maintain assets to ensure they reach their intended life.

The Department is constantly assessing its facilities requirements to ensure that its asset base is not at an

³⁰ Response by Department of Treasury and Finance to the Committee's 1999-2000 estimates questionnaire, p.32

excessive level, compared to its service delivery requirements.³¹

- **Human Services** - The Capital Assets Charge is based on the written down value of the non-current physical assets of the Department and its reported agencies plus the addition of new assets from the injection of funds by Government on an annual basis. As part of the Metropolitan Health Care services plan, assets are being rationalised. An estimated \$62.5 million of property sales will partially offset the cost of new facilities being developed. For example, the 1999-2000 Budget makes provision through the receipts retention arrangements for the Department to sell properties becoming surplus because of the Youth and Family Services Redevelopment and to utilise the proceeds to purchase new assets which will increase the level of efficiency and provide facilities to meet demographic changes. The aim of this process has been to increase the Department's ability to meet service requirements through the more effective use of its assets. One of the results of this process will be to change the amount of CAC payable but it is not a significant driver of the Department's policy.³²
- **Infrastructure** - The following major factors will contribute to the minimisation of the Capital Assets Charge:
 - the impending sale of all Rail Corporations;
 - no charges applicable for infrastructure assets held by VicRoads; and
 - approximately 90 per cent of the operations of the Department depend upon the supply from outside sources and these sources use

³¹ Response by Department of Education to the Committee's 1999-2000 estimates questionnaire, p.58

³² Response by Department of Human Services to the Committee's 1999-2000 estimates questionnaire, p.17

their own assets (eg school buses and road plant).

The remainder of the assets on the balance sheet relate to office equipment being used in the day to day operations of the Department and surplus land.³³

- **Justice** - Did not respond to this question.
- **Natural Resources and Environment** - The Department's assets consist of approximately 82 per cent assets held under legislation and 18 per cent for operational purposes. Given that land is excluded and the nature of the assets held by the Department, there is limited scope to reduce the asset base and minimise the Capital Assets Charge.³⁴
- **Premier and Cabinet** - The Department will implement the following measures to minimise the amount of CAC to be charged;
 - by identifying and monitoring the effectiveness of capital applied to resources that support output provision;
 - achieving efficiencies by reducing holdings of under performing or surplus assets;
 - by using assets in an appropriate and effective manner to achieve increased productivity; and
 - by maintaining assets in appropriate working order to meet service delivery requirements.

It should be noted that the Department's assets mainly comprise buildings and cultural assets and as a result this gives the Department little capacity to minimise the amount of Capital Assets Charge payable.³⁵

³³ Response by Department of Infrastructure to the Committee's 1999-2000 estimates questionnaire, p.77

³⁴ Response by Department of Natural Resources and Environment to the Committee's 1999-2000 estimates questionnaire, p.60

³⁵ Response by Department of Premier and Cabinet to the Committee's 1999-2000 estimates questionnaire, p.34

- **State Development** - The Department has developed an on-going asset verification program with the intention of identifying unused assets and disposing of them.³⁶
- **Parliamentary Departments** - After discussions with the Department of Treasury and Finance it was decided that a Capital Assets Charge will no longer be payable on assets of a heritage nature.³⁷

As illustrated by the above responses, information on the effectiveness of the CAC is limited. From the information provided by the departments, the Committee was unable to evaluate the impact of the CAC.

³⁶ Response by Department of State Development to the Committee's 1999-2000 estimates questionnaire, p.36

³⁷ Response by Parliamentary Departments to the Committee's 1999-2000 estimates questionnaire, p.17

CHAPTER 5 DEPARTMENT OF TREASURY AND FINANCE

5.1 Output management framework

The Department advised the Committee that it is continuing to develop appropriate measures of activities.³⁸ For 1999-2000, the Department has 8 output groups for which 30 major outputs and 148 performance measures have been identified (the comparatives for the prior year were 8, 29 and 150 respectively).

As a result of the changing nature of the Department's activities some measures have changed in 1999-2000. Specifically, changes have been made to the output information, performance and targets to accommodate the Management Reform Program model (MRP).

Of the one hundred and forty-eight performance measures established for 1999-2000, seventy-eight are new measures while seventy also applied to 1998-99. The Committee is concerned that there is no reporting of achievements against the remaining eighty performance measures that were applicable to 1998-99 in the Budget Papers.

While the Committee acknowledges that it will take some time for Departments to develop the most appropriate performance measures, it is important that achievements against measures established for the previous period are reported and that some basis of comparison between periods is provided.

The Committee recommends that:

³⁸ Response by Department of Treasury and Finance to the Committee's 1999-2000 estimates questionnaire, p.21

Recommendation 5.1:

The Department of Treasury and Finance ensure that details of actual performance against measures established for the previous period, are included in the Budget Papers.

Recommendation 5.2:

Wherever possible, links be provided between superseded measures and newly established measures to ensure a basis for comparison.

Recommendation 5.3:

Explanations be given in the Budget Papers as to why previously established performance measures are no longer suitable.

The Committee noted that the Department relies to a significant extent on the level of “ministerial satisfaction” as a qualitative measure of performance. While this is a useful measure, there are other stakeholders whose level of satisfaction with the services provided by the Department is important in measuring performance. For example, for the major output *Departmental Performance Analysis and Review*, it would also be useful to measure the satisfaction of the quality and usefulness of advice provided.

In some cases, for example, the major output *Public Sector Employee Relations Services* where the performance measure is the “delivery of public sector employee relation services to Government and client organisations”, the unit of measure by which achievement is stated is in absolutes ie. *yes* or *no*. There would seem to be little value in such measures.

In other cases it is not clear what is being measured. For example, for the major output *Purchasing and Procurement Services*, a qualitative performance measure is “End user survey on usefulness of the advice/training provided” and the target is seventy-eight per cent. It is not clear whether the target relates to the level of satisfaction with the advice/training provided or whether seventy-eight per cent of end users are to be surveyed.

The Budget Papers do not identify the basis on which targets for each of the performance measures were set. As a result, it is not possible to determine how objective the targets are or how easily achievable they may be. For example, for the *Strategic Policy Advice* output group, the target for the year is five key strategic initiatives. From the information provided it is not possible to judge whether or not this is a reasonable level of activity for the year.

In relation to the 1999-2000 performance measures where there was an equivalent measure in 1998-99, in many cases the current year's target has been set at the same level as that established and achieved in 1998-99. There are many examples of this, particularly in relation to the level of ministerial satisfaction with the timeliness and quality for a variety of major outputs. In the context of continuous improvement, it is a reasonable expectation that targets, once having been achieved, will be increased in future periods.

The Committee is concerned that it is not always possible to link the Key Government Outputs for particular output groups to the performance measures established. For example, the Key Government Outcomes for the Strategic Policy Advice group are a sustainable budget surplus; value for taxpayers dollars; a competitive economy and economic growth. However, the performance measures are focused on ministerial satisfaction with the quality, usefulness and timeliness of advice and the delivery of five key strategic initiatives for the year. There should be a qualitative measure to assess whether the initiatives address the key government outcomes and whether the output group has contributed to successful implementation of initiatives.

In some cases, the focus of the Department's performance measures is questionable. For example, the quality indicator for the major output *Y2K Risk Management Services* in the Risk Management Services output group is "meets Cabinet's reporting requirements and objectives". While this is an important measure for determining whether user needs are met, it is equally important that there be a measure that focuses on whether Y2K risks are being properly managed by the output group.

The Committee recommends that:

Recommendation 5.4:

The Department of Treasury and Finance continue to refine its performance measures, to ensure they are:

- **developed after taking into account the needs of all stakeholders affected by the activities;**
- **meaningful i.e. the measurement contributes to an understanding of the Department's performance in relation to the Key Government Outcome of the output group;**
- **understandable i.e. are not ambiguous and clearly identify what is being measured; and**
- **measurable in a meaningful way.**

Recommendation 5.5:

As Corporate and Business Plans are not always available in time for the Public Accounts and Estimates Committee's review of the Budget Estimates, it is important that the methodology for establishing targets be reported in the Budget Papers.

Recommendation 5.6:

Where performance targets have been achieved and there is a reasonable expectation of improvement, the performance targets be increased for the next financial year.

The Department is yet to systematically approach benchmarking, however, a number of initiatives are currently underway, including the participation of the State Revenue Office in a benchmarking study sponsored by the Australian Taxation Office and the commencement of work on establishing benchmarks for the provision of policy advice.

5.2 Corporate and business plans

The Committee requested a copy of the Department's Corporate and Business Plans covering the 1999-2000 financial year. The Department advised that the plans would be finalised by the end of June 1999, at which time a copy of the Corporate plan would be forwarded to the Committee. However, the Department indicated that the Business Plan was a confidential internal working document and therefore would not be provided. The Committee has, in past reports, expressed concern at the Department's failure to provide a copy of its business plan for independent evaluation of business strategies to achieve the Department's goals and the Government's objectives. Despite the Department's assurance that its Corporate Plan would be available by the end of June 1999, at the date this report was prepared, the Committee had still not received the full text of the Plan.

The Committee finds this situation unsatisfactory. Without access to the detailed information contained in these plans, the Committee can not set in context the performance information that is provided in the Budget Papers.

The Committee recommends that:

Recommendation 5.7:

In the interest of accountability, the Department of Treasury and Finance complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

5.3 Budget overview

As outlined in Exhibit 5.1, the Department will receive an increase in outlays of \$1.1 million from the previous year.

Exhibit 5.1

Departmental Output Group	1998-99 Budget (\$million)	1998-99 Revised (\$million)	1999-2000 Budget (\$million)	(col 3-1) Variation (percentage)
Financial Management Services	17.8	18.6	22.6	27.4
Risk Management Services	19.9	20.6	22.7	14.2
Resource Management Services	55.9	114.2	108.7	94.4
Strategic Policy Advice	20.3	20.3	24.3	20.2
Regulatory Services	34.5	28.0	26.0	-24.8
Taxation Management Services	56.2	57.4	59.0	4.8
Privatisation Services	105.5	95.0	40.2	-61.9
Reform Services	35.3	42.5	42.9	21.5
Total	345.4	396.6	346.5	0.3

Source: 1999-2000 Budget Paper No. 3, Budget Estimates, page 319

The estimated increase of 94 per cent in the cost of the Resource Management Services output group from the original budget is a result of the inclusion of an additional output – *Management of Centrally Controlled Motor Vehicle and Buildings Finance Leases*. The Committee noted that this new output includes recognition of costs associated with lease arrangements for motor vehicles, and also buildings constructed under the Victorian Accelerated Infrastructure Program (VAIP). Recognition of these costs aligns the budget documents with accounting standards and the Annual Financial Statement. This increase is offset to some extent by the winding down of the privatisation program.³⁹

In response to the Committee's questionnaire, the Department indicated that it will achieve productivity gains to cover the 1.5 per cent budget requirements through a broad range of activities and initiatives, however, no specific details were provided to the Committee.⁴⁰

³⁹ Hon. A. Stockdale, Treasurer, transcript of evidence, 20 May 1999, p.4

⁴⁰ Response by Department of Treasury and Finance to the Committee's 1999-2000 estimates questionnaire, p.34

5.4 Human resources

The Department has estimated that as at 30 June 1999, it will have 511 staff working in 5 divisions compared with 481 in 1998-99.

Exhibit 5.2

Division	30 June 1998 (actual)	30 June 1999 (estimate)
Budget and Financial Management	169	174
Commercial Policy and Projects	126	132
Corporate Services Centre	57	82
Economic and Financial Policy	65	73
Strategic Management	64	50
Total	481	511

Source: Response by Department of Treasury and Finance to the Committee's estimates questionnaire, attachment 2

5.5 Key issues facing the Department

In response to the Committee's questionnaire, the Department identified the following key issues that will impact on the budget estimates for 1999-2000:

5.5.1 *Tax Reform*

To address tax reforms, the Department is to be provided with funding of \$15 million over the next two years for policy development and implementation.

5.5.2 *Privatisation*

The Department's total output costs will fall significantly in 1999-2000 mainly as a result of the winding down of the Government's major privatisation program. Privatisation services in 1999-2000 are expected to cost \$27.7 million, a decrease of \$77.8 million from the previous year. In relation to the privatisation activities of the Department, the Treasurer advised that remaining privatisation covers the franchising of public transport and the privatisation of V/Line Freight.⁴¹

5.5.3 *Information Technology and the Year 2000*

⁴¹ Hon. A. Stockdale, Treasurer, transcript of evidence, 20 May 1999, p.24

In November 1998, the Public Accounts and Estimates Committee tabled its Report No. 26 in the Parliament, titled *Information Technology and the Year 2000 Problem – Is the Victorian Public Sector Ready?*

The Committee recommended a number of detailed initiatives from the whole of government perspective:

- establish government-wide priorities to remediate systems which could impact on health and safety, business continuity, security and the economy;
- develop Year 2000-related disaster relief planning in the possible event of multiple and concurrent failures in essential services such as telecommunications and utilities i.e. electricity, water and sewerage;
- raise community awareness of the Year 2000 problem by reporting on Year 2000 problems and giving the required assurances that action is being taken to address these issues;
- seek assurances from third parties that any interfacing data systems are Year 2000 compliant; and
- encourage major utility companies and public corporations to share information and coordinate their individual Year 2000 compliance programs in order to ensure Year 2000 compliance in essential services.⁴²

The Reports prepared by the Year 2000 Unit indicate that, as at 14 June 1999, public sector agencies were 97 per cent complete in achieving Year 2000 readiness by 30 June 1999, excluding preparation of contingency plans. The Unit also reported that contingency plans had been completed for around 89 per cent of identified critical systems and/or processes as at that date.⁴³

5.6 Gambling taxes

⁴² Public Accounts and Estimates Committee Twenty Sixth Report to the Parliament November 1998, p.xvi & xviii

⁴³ Year 2000 Risk Management Unit, Year 2000 Readiness by Portfolio as at 14 June 1999

In Victoria, gambling taxes are derived from the following:

- *Private Lotteries* – all lotteries and soccerpools in Victoria are conducted by Tattersalls under a licence issued pursuant to the *Tattersall's Consultations Act 1958*;
- *Electronic Gaming Machines (EGM's)* – Tattersalls and TABCORP are licensed to operate a maximum of 27 500 EGM's to approximately 280 clubs and hotels throughout the State. In addition, Crown Casino is licensed to operate 2 500 EGM's in its premises;
- *Crown Casino* – is licensed to provide casino services in Victoria, including a maximum of 350 gaming tables; and
- *Racing industry* – TABCORP has an exclusive license to run off-course totalisators in Victoria, and is also authorised to run on-course totalisators at racecourses throughout the State.

Taxes collected in relation to gambling activities conducted within Victoria, which form part of taxation receipts, represent a significant component of the government's total revenue. In recent reports, the Committee has commented on the increasing reliance of the States on this source of revenue and notes that during 1997-98, the total revenue to the State from gambling activities was \$1.3 billion and represented 5 per cent of total State operating revenues of \$25.6 billion. [Revenue from gambling activities is expected to become the third most significant revenue source to government by 2000-01](#), with payroll tax and taxes on property the only categories generating higher levels of revenue than gambling taxes.⁴⁴

A break-up of the components of budgeted gambling taxation revenue is shown in Exhibit 5.3

Exhibit 5.3

Gambling Taxes	1997-98 Actual (\$million)	1998-99 Budget (\$million)	1998-99 Revised (\$million)	1999-2000 Budget (\$million)	(col 4-2) Variation (percentage)
----------------	----------------------------	----------------------------	-----------------------------	------------------------------	----------------------------------

⁴⁴ 1999-2000 Budget Paper No. 2, Budget Statement, p.161

Private Lotteries	323.5	288.9	294.7	296.3	2.6
Electronic Gaming Machines	704.1	754.6	806.1	843.0	11.7
Crown Casino	174.6	162.8	156.1	145.0	-10.9
Racing	127.5	131.5	135.3	139.9	6.4
Other	4.1	3.5	3.7	4.0	12.9
Total	1 333.8	1 341.3	1 395.9	1 428.2	6.5

Source: 1999-2000 Budget Paper No. 3, Budget Estimates, p.378

While receipts from the gambling sector have been underestimated in recent years, it is expected that growth in gambling receipts will moderate in 1999-2000 as revenue growth slows from electronic gaming machines. Nevertheless, it is expected that revenue from gambling activities will stabilise at around 5 per cent of the State's total revenue for the foreseeable future. The Government expects that it will receive \$1 428.2 million in gambling taxes in 1999-2000 rising to \$1 563.4 million by 2002-03.⁴⁵

The Committee notes that most government revenues from these forms of gambling are transferred by standing appropriation to the Hospitals and Charities Fund, the Mental Hospitals Fund and the Community Support Fund. The net addition to budget revenues from casino operations is dedicated to the funding of major civic projects under the government's *Agenda 21* program.⁴⁶

For 1998-99, the distribution of these taxes will be as follows:

- Hospitals and Charities Fund \$1 060 million;
- Mental Hospitals Fund \$59 million;
- Community Support Fund \$108.5 million; and
- remaining in the Consolidated Fund \$215.4 million.

5.7 Regulation of the Gaming Industry

The Productivity Commission released its draft report into Australia's gambling industries in July 1999. The Inquiry covered the economic and social impacts of the gambling industries and

⁴⁵ 1999-2000 Budget Paper No. 2, Budget Statement, p.161

⁴⁶ 1999-2000 Budget Paper No. 3, Budget Estimates, p.385

the effects of the different regulatory structures that surround these industries.

The key findings of the Productivity Commission include *inter-alia*:

- the current regulatory environment is deficient in many respects. Regulations are complex, fragmented and often inconsistent. This has arisen because of inadequate policy making processes and strong incentives for governments to derive revenue from gambling industries;
- existing self-regulatory arrangements are inadequate to ensure the informed consent of consumers or to ameliorate the risks of problem gambling. There are particular deficiencies in:
 - information about the price and nature of gambling products (especially gaming machines);
 - information about the risks of problem gambling controls on advertising (which can be inherently misleading);
 - availability of ATM's and credit; and
 - self exclusion arrangements.
- in such areas, self regulatory approaches are unlikely to be as effective as explicit regulatory requirements. In most cases, these can be designed to enhance, rather than restrict consumer choice, by allowing better information and control;
- an ideal regulatory model should separate clearly the policy making, control and enforcement functions; and
- the key regulatory control body in each state should have statutory independence and a central role in providing information and policy advice, as well as in administering gambling legislation. It should cover all gambling forms and its principal operating

criteria should be consumer protection and the public interest.⁴⁷

Regulation of the gaming industry in Victoria is the responsibility of the Victorian Casino and Gaming Authority, an independent statutory body. The Victorian Auditor-General's report of the Victorian Casino and Gaming Authority concluded that the Parliament, Government and the Victorian community can be confident that an effective regulator is continually overseeing the day to day workings of the State's gaming industry.⁴⁸

⁴⁷ Productivity Commission, Draft Report, Volume 1, Australia's Gambling Industries, p.xii – xiv

⁴⁸ Victorian Auditor-General, Special Report No. 54 Victoria's Gaming Industry, March 1998, in 'brief statement'

CHAPTER 6 DEPARTMENT OF EDUCATION

6.1 Introduction

In 1999, the Department will provide:

- government school education services to approximately 306,600 primary school students, 217,300 secondary school students, 5,400 students in special schools, 1,040 students in 12 language schools and centres; and 270,600 non-government school students; and
- tertiary education and training to more than 600,000 students.

6.2 Output management framework

The Committee notes that the Department's output groups remain the same as for the previous year. The Department is continuing to develop appropriate measures of its activities. For 1999-2000, the Department has 3 output groups for which 22 major outputs and 141 performance measures have been identified (the comparatives for the prior year were 3, 27 and 144 respectively).

Around thirty-five per cent of the Department's performance measures for 1999-2000 are new. However, there is no information provided to identify the basis on which the targets were established. It is therefore difficult to determine the appropriateness of the target set. For example, for the major output *Intensive Early Literacy and Numeracy Services* a performance measure of quality is "student attainment at text level 1 at end Prep in reading" with a target of 80 per cent for 1999-2000. Without a basis for establishing the objectivity of the target, such as a link to national or international standards, the target is meaningless to users of the Budget Papers. It gives no indication of whether this is a reasonable standard of achievement. The same criticism can be applied to pre-existing performance measures.

For the major output identified above there is an additional quality measure “Student attainment at text level 5 at the end of year 1 in reading” with a target 100 per cent. However, the target has a footnote that provides a qualifier to the target i.e. “where deemed capable”. In this case, the qualifier has diminished the value of the target as the potential consequence is that any failure to achieve the target may be conveniently justified. When determining targets, appropriate consideration should have been given to past experience. For the example cited, consideration should have been given to the percentage of cases where, historically, children have been deemed incapable of achieving the required standard.

The Committee recommends that:

Recommendation 6.1:

The Department of Education provide information in the Budget Papers to indicate the basis upon which performance targets have been established.

While the Department has improved its qualitative measures, the Committee considers there are some measures that require further review. For example:

- a review of the Budget Papers reveals examples where the qualitative measures appear to be meaningless. For example, for the major output *Non-Government School Education*, a qualitative measure is “student enrolments collected and verified for all schools”. It is difficult to see how the performance measure or the target of 100 per cent contributes to the quality of non-government school education;
- in some cases there is no clear distinction between the quantitative measures and the qualitative measure. For the major output *New Learning Technologies, Multimedia and Open Learning*, where the role, in general terms, is to provide infrastructure and hardware to schools and access to various IT resources and services, the qualitative measures are:
 - school-based staff with an EduMail e-mail account (per cent);

- teachers and principals with a notebook computer (per cent);
- schools with video and audio conferencing capability (per cent);
- catalogued Internet sites in EduNet Education Cache (number);
- school-based staff with local call cost remote access to educational resources (per cent); and
- teachers reporting skilled use of technology (per cent).

Surprisingly there is no measure of school satisfaction with the quality of the service provided under the major output. In addition, there is no information provided on how the above measures indicate quality rather than the extent of resources provided; and

- For some major outputs, qualitative measures have not been established. For example, the major output *Student Transport Services* which relates to the administration of student transport services for government and non-government school students. In this case it would seem appropriate to measure parent satisfaction with this administration as an indicator of quality.

The Committee recommends that:

Recommendation 6.2:

The Department of Education continues to refine its performance measures and, in particular, the qualitative measures be reassessed to ensure they are true indicators of quality. Where necessary, supporting information should be provided to explain how the outputs measured contribute to the achievement of quality outcomes.

The Committee was advised that the Department has adopted a range of performance benchmarking practices.⁴⁹

At the individual school level, the Department's Office of Review has developed benchmarks based on information contained in school annual reports. Benchmarks have been developed to assist schools in assessing their own performance against comparable schools. Benchmarks have been identified in the following areas:

- expenditure per government school student;
- per capita expenditure as a percentage of standardised expenditure;
- student-teacher ratios;
- age participation rates;
- apparent retention rate to Year 12;
- apparent retention rate from Year 10 to Year 12; and
- destinations of school leavers.

In addition, the Department advised that national goals and benchmarks for literacy and numeracy have been established. The states and the Commonwealth are working towards the reporting of state performance against these benchmarks.

The Department advised that the range of performance measures, benchmarks and targets are constantly under review.

The Committee noted that benchmarks for training and further education have been identified in the following areas:

- costs per student contact hour;
- per cent of 15-64 year olds participating in TAFE;
- government-funded student contact hours and course enrolments;
- module load completion rate;
- per cent of TAFE graduates gaining employment; and
- employer satisfaction with TAFE.

⁴⁹ Department of Education, Response to Committee's Questionnaire, 1999, p.35

The benchmarks for TAFE are based on the performance indicators published by the Australian National Training Authority.

In the Adult Community Education sector, there has not been the impetus at the national level to develop benchmarks, as there has been in the TAFE sector.

The Committee recommends that:

Recommendation 6.3:

The Department of Education develop suitable benchmarks in the Adult Community Education Sector that will facilitate performance measurement.

6.3 Corporate and business plans

In response to the Committee's questionnaire, the Department advised that its 1999-2000 Business Plan is currently being developed and it is expected that the Plan will be completed for the start of the 1999-2000 financial year. In addition, the Department's Corporate Plan will be updated to reflect new government directions and initiatives. However, at the date of preparation of this Report, the Committee had not received a copy of the Department's Corporate and Business Plans.

The Committee is concerned at the delay in finalising the corporate and business plans for 1999-2000. The Committee considers such documents to be an integral part of the budget estimates inquiry process and should therefore be completed in time to allow for adequate scrutiny and evaluation of the strategies and performance indicators to be used by the Department to achieve desired outcomes.

The Committee recommends that:

Recommendation 6.4:

The Department of Education complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

6.4 Budget overview

As outlined in Exhibit 6.1, the Department will receive an increase in outlays of \$453.8 million from the previous year.

Exhibit 6.1

Departmental Output Group	1998-99 Budget (\$million)	1998-99 Revised (\$million)	1999-2000 Budget (\$million)	(col 3-1) Variation (percentage)
School Education	3958.4	4110.0	4354.7	10.0
Tertiary Education and Training	789.9	853.7	848.8	7.5
Policy, Strategy and Information Services	27.8	27.6	27.0	-3.1
Total	4776.6	4991.3	5230.4	9.5

Source: 1999-2000 Budget Paper No. 3, Budget Estimates, page 25

In response to the Committee's questionnaire, the Department advised that the increase is mainly attributable to the following:

- \$169 million increase in salary and associated entitlements for teachers in schools and TAFE colleges;
- \$96.5 million for initiatives approved by Government for both the 1998-99 (full year effect) and 1999-2000 initiatives totalling \$62.6 million, which includes \$18.1 million for apprenticeships and traineeships in the TAFE sector, \$17.2 million for technical support for schools and \$8 million for science, engineering and technology in schools; and
- a change in the Department's accounting policy for the treatment of asset maintenance transactions (previously capitalised) totalling \$84.2 million.

The Committee was advised that the productivity savings target for 1999-2000 is \$20.1 million. In addition, the Department is required to find \$2.9 million from head office efficiencies to support government initiatives. The Department will achieve these targets through a range of measures including:

- reductions in central and regional office staff numbers and operating costs;

- detailed examination of outsourcing options on a case by case basis consistent with the Department's Strategic plan for outsourcing developed in 1998; and
- further reductions in numbers of teachers in excess of school salary budgets.

6.5 Human resources

The Department estimated that as at 30 June 1999, it will have 44 225 staff, an increase of 2.5 per cent in the overall departmental staffing level.

Equivalent Full Time Staff by Output Group is as follows:

Exhibit 6.2

Output Group	30 June 1998 (actual)	30 June 1999 (estimate)
School Education	42510	43575
Tertiary Education and Training	445	447
Policy, Strategy and Information Services	203	203
Total	43158	44225

Source: Response by Department of Education to the Committee's estimates questionnaire, 1999, page 59

The Committee was informed that approximately 75 per cent of the Department's budget is spent on the employment of staff.⁵⁰

6.6 Key issues facing the Department

In response to the Committee's questionnaire, the Department identified the following key issues that impact on the budget estimates for 1999-2000:

6.6.1 *Managing additional demand for services*

The Department advised that, as a result of an increase in the number of students with disabilities and impairments, an additional \$6.3 million has been allocated to provide extra resources for these students.

⁵⁰ Department of Education, Response to Committee's Questionnaire, 1999, p.60

The Committee was advised that apprenticeships and traineeships are growing significantly throughout Victoria. New training agreements in 1998 were 28 per cent higher than in 1997. An allocation of \$18.1 million has been committed to accommodate this growth.

The Committee noted that funding for the Youth Employment Program was due to cease on 30 June 1999. However, due to the demand for this program, further funding of \$1.4 million has been allocated to provide work experience and training to the young unemployed.

6.6.2 Improving student and client achievement in education and training

The Committee was advised that the Government has adopted the following targets for education:

- 100 per cent literacy for school children at Year 3 by the end of 2005; and
- students in Victoria to be in the top five in the world in mathematics and science at Year 9 level by 2010.

To achieve these targets and to ensure improvements in student learning outcomes, the following initiatives have been taken:

- expansion of the Early Years Literacy program (\$50 million on-going);
- \$16.6 million over three years to implement the new Curriculum and Standards Framework 2000 in schools (CSF 11), which will play a major role in addressing student learning in literacy, numeracy and teaching and learning in mathematics, science and technology; and
- \$3.4 million committed to support further research into improving learning outcomes for students in Years 7-9 under the Middle Years Research and Development (MYRAD) project.

6.6.3 Maximising the use of technology and multimedia

The Committee was interested to learn of the Government's commitment to provide laptop computers to all of the State's teachers over a five year period and to achieve a computer-to-student ratio of 1 to 5 across all schools by the year 2000. To assist in meeting these targets, \$51.4 million in funding was committed in the 1998-99 budget to provide Victorian schools with access to computers, the Internet, on-line curriculum materials, technology training for teachers and new systems for school administrations. An additional \$17.2 million has been allocated in the 1999-2000 budget to provide IT technical support to schools.

The Minister for Education advised the Committee that information technology strategies for schools involve some \$216.6 million over 5 years for computers, with technical support worth \$104 million over 4 years.⁵¹

To date, approximately one-third of the State's teachers and principals have received notebook computers and associated training. A further 6 000 teachers and principals will receive notebooks and training by April 2000.

VICOne provides schools with access to the Victorian government wide area network. The Committee understands that all Victorian government schools are connected to this facility. An additional \$1.8 million in 1999-2000 has been committed to enable full implementation of the Education computer network based on VICOne. The network will enable new modes of educational delivery, the development of a digital resource base and improving learning outcomes for students.

6.6.4 Improving Victoria's competitiveness in science, engineering and technology

As stated above, the Government has set a target for Victorian students to be in the top five in the world in mathematics and science at Year 9 by 2010. To assist in achieving this target, the Budget provides \$21.8 million over the next three years. The initiative is designed to improve the quality of teaching and learning in science from Prep to Year 10. According to the Department, major initiatives will include research, development

⁵¹ Hon. P. Gude, Minister for Education, transcript of evidence, 17 June 1999, p.115

and implementation of best practice teaching and learning strategies and the establishment of best practice science centres to provide support and professional development for schools.

6.7 Self governing schools

The Minister for Education advised the Committee that the Department is committing 92 per cent of its recurrent funds to the Schools of the Future program and that control of these funds will be in the hands of school communities, entrusting them to deliver services within the curriculum and standards framework. In so doing, schools will have the freedom to develop strategies for their own school communities.⁵²

As part of this program, the Department has committed \$11.1 million over two years towards self-governance in schools. Schools who choose to become self-governing receive a one-off establishment grant of \$30 000 and those schools that decide to go into a specialist mode, receive \$50 000 per annum for three years.

The Minister advised that currently some 51 schools representing 35 600 students have signed three year educational service agreements relating to the delivery of educational services for each of the schools and that it is expected that many other schools will take up this option.⁵³

The Committee was interested to learn that even though self-governing schools have the freedom and flexibility to make decisions regarding school funding, nevertheless, they have certain obligations to fulfil, such as a requirement to:

- accept all students in their particular 'catchment area';
- deliver on the Department's curriculum and standards framework;
- complete the learning assessment program (LAP);
- undertake the Victorian secondary assessment monitoring; and

⁵² Ibid, p.116

⁵³ Ibid, p.114 and 117

- be subject to normal funding arrangements.⁵⁴

In its 1998-99 Report on the Budget Estimates, the Committee highlighted how the introduction of self-governance arrangements would transfer significant responsibilities from the Department to the respective School Councils. Under the provisions of the *Education (Self-Governing Schools) Act 1998*, schools granted self-governance will become legal entities in their own right, have authority to manage their resources and school councils will be able to:

- directly employ staff;
- co-opt representatives from the community with specialist skills to the School Council;
- set priorities; and
- enter into partnership with business, TAFE and other institutions.⁵⁵

However, the Committee stressed the need for adequate accountability mechanisms and recommended that school council members receive comprehensive training on their responsibilities and obligations.⁵⁶

In response to the Committee's recommendation, the Department has been proactive in providing a number of professional development activities for school council members and intends to provide an extended training program for council members of Self-Governing Schools to skill them in their new roles, responsibilities and accountability obligations.

6.8 Unfunded superannuation liabilities in Victorian Universities

Over many years, Victorian Universities have accumulated unfunded superannuation liabilities in respect of those employees who are members of the Victorian State Superannuation Fund. In previous years, these liabilities were not recognised in the balance sheets of the universities as, in accordance with a directive issued by the Treasurer under the authority of the *Financial Management*

⁵⁴ Ibid, p.117

⁵⁵ Report on the 1998-99 Budget Estimates, page 83

⁵⁶ Ibid, page. 84

Act 1994, these liabilities were reported in the annual financial statements of the Department of Treasury and Finance. However, the Committee noted that this direction was amended in January 1999, now requiring the universities to report the unfunded liabilities in their respective balance sheets for the year ended 31 December 1998. Total unfunded superannuation liabilities collectively amounted to \$817.8 million as at that date.

Under the *States Grants (General Purposes) Act 1994* (Commonwealth), universities receive annual recurrent grants to assist in financing their operations. These grants are paid to the universities by way of special parliamentary appropriations. Additionally, under the *Higher Education Funding Act 1988* (Commonwealth), the responsible Commonwealth Minister may also provide additional grants to universities to meet additional emerging costs of superannuation above those funded under the *States Grants (General Purposes) Act 1994*.

While all universities have complied with the above-mentioned directive and reported their unfunded superannuation liabilities in their balance sheets, they have also recognised an equivalent amount as an asset representing the funding they expect to receive from the Commonwealth Government by way of future annual grants to meet these liabilities.

The Committee noted that the Auditor-General has qualified the financial reports of all Victorian Universities for the year ended 31 December 1998 on the grounds that he is unable to confirm, as an asset, the receivable from the Commonwealth Government to cover the costs associated with the unfunded superannuation liability.

The Committee notes that the Victorian Minister for Finance does not agree with the qualification issued by the Auditor-General:

“The Commonwealth Government has provided funds for the unfunded superannuation liabilities of universities since funding responsibility for higher education transferred to the Commonwealth 25 years ago. Further, guidelines issued by the Commonwealth require universities to recognise as an asset the Commonwealth’s commitment to meet unfunded superannuation costs. The Victorian Government Solicitor’s Office confirms that it is reasonable for universities to

*recognise a legal supportable claim on the Commonwealth for the funding of unfunded superannuation liabilities. On the basis of these facts, the Department of Treasury and Finance has advised that the receivable from the Commonwealth qualifies as an asset as defined in Statement of Accounting Concepts (SAC 4) Definition and Recognition of the Elements of Financial Statements.*⁵⁷

The Committee is also aware that universities in both New South Wales and South Australia recognise a receivable from the Commonwealth for on-going costs of meeting their unfunded superannuation liabilities and that this treatment does not attract audit qualifications in those jurisdictions.⁵⁸

The Committee is surprised that the Auditor-General has deemed it necessary to qualify the annual financial statements of all Victorian universities for the year ended 31 December 1998 and is of the view that the matter should be resolved as a priority and before the completion of the Universities' annual financial statements for the 1999 financial year.

The Committee believes that in the interests of all parties, the annual financial statements of the universities should not be subject to an audit qualification and that all parties concerned should find a resolution to this matter. The Committee intends to follow this matter up with the Auditor-General.

The Committee recommends that:

Recommendation 6.5:

As a matter of priority, all parties resolve the issue of the reporting of unfunded superannuation liabilities in Victorian universities accounts.

6.9 Department of Education outsourcing strategic plan

The Committee was advised that the Department is close to finalising a strategic plan for outsourcing services. The plan will be

⁵⁷ The University of Melbourne, Annual Report, 1998, p.96

⁵⁸ Ibid.

a culmination of a major review of Departmental services to determine their suitability for outsourcing. The Committee was informed that the Department is now giving consideration to outsourcing the following services:

- Mornington Early Intervention Service which provides services to the families of pre-school deaf children aged 1-3 years. The contract for the provision of this service is expected to be \$1.1 million; and
- provision of specialist technical support for computer technology in schools. Total funding of \$104 million will be allocated to this initiative over four years, with \$17.2 million being allocated in 1999-2000.⁵⁹

The Department estimates that net savings from the planned outsourcing for the coming three years will be unlikely to exceed \$1 million. Benefits will be improvements to services and the shedding of non-core activities.

⁵⁹ Department of Education, Response to Committee's Questionnaire, 1999, p.23

CHAPTER 7 DEPARTMENT OF HUMAN SERVICES

7.1 Output management framework

The Committee notes that in 1999-2000, the Department is introducing a significant number of new performance measures, 10 output groups for which 34 major outputs and 174 performance measures have been identified (the comparatives for the prior year were 11, 50 and 150 respectively). The only change in output groups for the Department was the merging of the *Coordinated Care Services* and *Aged Care Services* output groups into, *Aged Care and Primary Health Services*.

For many major outputs, the Department's performance measures of quality do not include a measure of stakeholder satisfaction with the service provided or the activities undertaken. Examples of major outputs that could benefit from being measured in terms of stakeholder satisfaction are *Protection and Placement* which relates to child protection services, *Juvenile Justice Services*, *Children's Services*, and *Information/Advocacy Services*.

In relation to *Juvenile Justice Services* the Committee was concerned that the occupancy rate in Juvenile Justice custodial facilities for 1998-99 is expected to be one hundred and five per cent ie. five per cent over capacity. The Department attributed this result to the Courts making greater use of detention. The Committee is aware that the Government is presently giving consideration to the use of private and non-government sector organisations to provide additional custodial facilities for juveniles.

While the 1999-2000 Budget Papers note an expenditure of \$1.7 million for new asset investment for disability and juvenile justice facilities, it was not possible to identify the extent to which any of these funds was to be used to address the apparent overcrowding.

For a number of major output groups, for example for *Acute Health Services* and *Public Health Services*, the targets set for 1999-2000 are the same as those established and met in 1998-99. The Committee believes that the performance targets should be set at levels that encourage continuous improvement.

In relation to the major outputs *Community Care and Support* and *Supported Residential Care*, the performance measures for quality show an expected two per cent improvement in 1999-2000 for consumer and carer satisfaction. While it is commendable that the Department intends to improve quality in these areas, there is no indication of the level of quality currently provided and therefore the significance of the improvement to be achieved cannot be assessed by the Committee.

7.2 Corporate and business plans

The Department's Corporate and Business Plans for 1999-2000 were not provided to the Committee. In response to the Committee's questionnaire, the Department advised that the 1999-2000 Human Services Departmental Strategy Plan, incorporating the Department's Corporate and Business Plan, is currently in draft form. The Department expected that the Ministers would endorse the final Departmental Strategic Plan in June 1999. However, as at the date of this Report, the Department had still not forwarded copies of the plans to the Committee.

The Committee recommends that:

Recommendation 7.1:

The Department of Human Services complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

7.3 Budget overview

As outlined in Exhibit 7.1, the Department will receive an increase in outlays of \$342.2 million from the previous year.

Exhibit 7.1

Departmental Output Group	1998-99 Budget (\$million)	1998-99 Revised (\$million)	1999-2000 Budget (\$million)	(col 3-1) Variation (percentage)
Acute Health Services	3024.9	3139.5	3222.2	6.5
Ambulance Services	169.6	183.1	198.1	16.8
Aged Care and Primary Health Services	944.2	938.5	976.3	3.4
Mental Health Services	437.5	445.5	453.2	3.6
Public Health Services	169.0	170.3	174.3	3.1
Disability Services	528.6	550.6	571.9	8.2
Youth and Family Services	494.4	487.7	503.1	1.8
Concessions to Pensioners and Beneficiaries	255.6	258.3	269.5	5.4
Aboriginal Services	9.6	9.3	9.3	-0.1
Housing Assistance	310.9	311.9	308.3	-0.8
Total	6344.1	6494.7	6686.3	5.4

Source: 1999-2000 Budget Paper No. 3, Budget Estimates, page 62

In response to the Committee's questionnaire, the Department advised that the increase is mainly attributable to the following:

Acute Health Services – an increase of \$197.3 million representing additional funding under the Australian Health Care Agreement and funds provided by the government to meet increased demand and to fund initiatives in the 1998-99 and 1999-2000 budget. Additional funding is also being provided to reduce hospital waiting lists.

Ambulance Services – increase in outlays totalling \$28.5 million, mainly to fund salary increases and government initiatives.

Disability Services – increase in outlays totalling \$43.3 million to provide for salary increases and government initiatives.

The Department expects to achieve a generalised productivity savings target of \$48.9 million in 1999-2000 across all departmental costs, excluding:

- Specific Purpose Payments provided under Commonwealth - State agreements;

- some Trust Fund Expenditure such as the Mental Hospital Fund; and
- concessions to pensioners and beneficiaries.

In addition, the Committee noted that the Department anticipates efficiency savings totalling \$18 million over a four-year period as a result of a Corporate Infrastructure Review.

7.4 Human resources

The Department has estimated that at 30 June 1999, it will have 9 500 staff (equivalent full time), a reduction of 3.3 per cent or 324 in departmental staffing levels. This decrease will be partially offset by an increase in external agency staff of 459 (equivalent full time) staff. The Department advised that staffing details are not currently available by output group, especially in external agencies which provide a wide range of services and share management costs.

Exhibit 7.2 provides details of staffing levels within the human services sector.

Exhibit 7.2

	30 June 1998 (actual)	30 June 1999 (estimate)
Department	9824	9500
External Agencies		
Public Hospitals and Aged Care Centres	44086	44250
Community Health Centres	1025	1150
HACC Agencies, Palliative Care, etc.	1591	1591
Ambulance Services	1555	1605
Victorian Institute of Forensic Mental Health	0	120
Total	58081	58216

Source: Response by Department of Human Services to the Committee's estimates questionnaire, page 56

7.5 Key issues facing the Department

In response to the Committee's questionnaire, the Department identified the following key issues which will impact on the budget estimates for 1999-2000:

7.5.1 *Increase in demand for services*

The Committee notes that all areas of the Department continue to experience significant increases in demand for services due to population growth and ageing, changes in community health needs, expectations and advancements in medical practice and technology and the level of private health insurance. In 1999-2000, substantial funding is to be provided to meet the demand-growth for increased services. New initiatives in the budget total \$103.2 million and include:

- Public Hospitals - \$64.8 million. The Department anticipates a 3 per cent growth in demand for in-patient services, which represents around 23 000 additional patients being treated in the public hospital system;
- Ambulance Services – \$5.2 million to metropolitan and rural ambulance services for emergency and non-emergency services;
- Public health – \$1 million for genetic testing, screening services and also for counselling, education and support; and \$1.2 million for needle exchange services; and
- Aged, Community and Mental Health - \$15.9 million for a range of programs including the growth in the home and community care program, aged services programs and support services for the disabled.

7.5.2 *Commonwealth/State Financial Arrangements*

Under Section 96 of the Constitution, the Commonwealth Government provides grants to the States for specific purposes. The Department of Human Services is the primary recipient of Commonwealth specific purposes grants within Victoria. In 1999-2000, the Department expects to receive \$1.85 billion for recurrent purposes (representing an increase of 8.6 per cent from 1998-99)

and \$218 million for capital works programs (\$218 million in 1998-99).⁶⁰ This represents 74 per cent of total current grants for specific purposes and 51 per cent of total capital grants for specific capital works programs. The bulk of recurrent funding is for hospitals, \$1.4 billion in 1999-2000 and capital grants for housing purposes, \$201.7 million in 1999-2000.

7.5.3 *Australian Health Care Agreement (AHCA)*

The Committee noted that a new five year AHCA was agreed with the Commonwealth Government commencing 1998-99. This replaced the Medicare Agreement which expired on 30 June 1998. The Minister indicated that while the new AHCA represented a successful outcome for Victoria, there will need to be on-going reform.

The Minister advised the Committee that while the new agreement acknowledges some growth in funding based on technology advances and demographic change, there is still some concern as to the basis on which the level of funding is to be calculated.⁶¹

Victoria will receive an additional \$117.5 million from the Commonwealth under the new AHCA.⁶²

7.5.4 *Residential care facilities*

As part of the Commonwealth Government's initiatives to improve residential care in Australia, all residential care facilities in both the public and private sectors, from 1 January 2001, must be accredited in order to charge residents accommodation fees and to be entitled to receive Commonwealth Government Funding. To achieve accreditation, facilities will have to achieve specific standards of nursing care and meet accommodation standards set by the Commonwealth Government.

The Minister advised the Committee that to achieve the Commonwealth Government's new aged care standards, a total of about \$200 million was required over a two year period to enable all public nursing homes in Victoria to meet the certification

⁶⁰ 1999-2000 Budget Paper No. 3, Budget Estimates, p.402

⁶¹ Hon. R. Knowles, Minister for Health and Minister for Aged Care, transcript of evidence, 15 June 1999, p.93

⁶² 1999-2000 Budget Paper No. 3, Budget Estimates, p.94

criteria. To upgrade those facilities, the Government has decided to outsource residential care facilities in the metropolitan and major provincial cities. However, for nursing homes identified as not suitable for outsourcing arrangements (such as where continuing provision of nursing home services are critical to the on-going provision of other services and smaller rural communities), the upgrade would require \$50 million of public funds.

The Committee was advised that outsourcing arrangements, once completed, will result in the transfer of almost 2 300 residential care beds to private and voluntary operators which will leave around 5 000 beds in Government owned facilities.

The Auditor-General examined the condition of residential care facilities and found that as at February 1999, 23 State owned facilities containing 1 224 beds were yet to meet the certification standards and that the Department had approved capital works to be undertaken at an estimated cost of \$52 million. In addition, the Auditor-General identified that two approved projects and eleven proposed projects were not scheduled to be completed until after 1 January 2001. Consequently, these facilities will not be able to charge patients accommodation fees or receive Commonwealth funding. Under these circumstances, the financial viability of these facilities will be at serious risk, with the operating funding shortfall likely to be met by the State.⁶³

In response to the audit comments, the Secretary to the Department of Human Services indicated that the matter is under discussion between the Department and the Commonwealth State Office and that the Department is committed to achieving redevelopment of those services which are to be retained in the public sector within the shortest possible timeframe and will take additional measures, as necessary, to ensure that current buildings meet minimum standards.⁶⁴

7.5.5 *Financial position of public hospitals*

⁶³ Victorian Auditor-General, Report on Ministerial Portfolios, May 1999, p.82

⁶⁴ Ibid, p.83

In the May 1999 Report on Ministerial Portfolios, the Auditor-General commented on the financial position of a number of hospitals throughout the State and the steps taken by the Department to improve the financial performance of those hospitals.⁶⁵

The Auditor-General's examination revealed:

- 66 per cent of hospitals incurred a deficit, prior to grants received for capital purposes and transactions of an extraordinary nature;
- 28 per cent of hospitals had generated negative cash flows from their operating activities; and
- 38 per cent of hospitals had a negative working capital position.

In the Committee's Report on the 1998-99 Budget Estimates, the Committee noted the Auditor-General's comments in relation to the increased financial pressures faced by public hospitals in recent years and particularly, the financial position of the Austin and Repatriation Medical Centre. The Auditor-General's review disclosed that, as at 30 June 1998, the Austin and Repatriation Medical Centre had an operating deficit of \$30.3 million and a negative working capital position of \$25.7 million.

The Minister advised the Committee that the Austin and Repatriation Medical Centre has been experiencing some difficulties over a number of years and that the hospital has been seeking to bring its costs into line with best practice compared with comparable hospitals. The Minister advised that some additional funding has been provided to the hospital and together with the sale of assets, which provided the capacity for the hospital to implement changes, the hospital expects to break even in 1998-99.⁶⁶

⁶⁵ Victorian Auditor-General, Report on Ministerial Portfolios, May 1999, p.71

⁶⁶ Hon. R. Knowles, Minister for Health and Minister for Aged Care, transcript of evidence, 15 June 1999, p.105

CHAPTER 8 DEPARTMENT OF INFRASTRUCTURE

8.1 Introduction

The information contained in this chapter is predominantly based on the Department of Infrastructure's response to the Committee's questionnaire, the Budget Papers and the estimates hearing with the Minister for Transport.

8.2 Output management framework

The Department is continuing to develop appropriate measures of its activities. Included in Budget Paper No. 3 are performance measures for quality, quantity and timeliness for which targets have been established for 1999-2000 with corresponding figures for 1998-99.

For 1999-2000, the Department has 5 output groups for which 29 major outputs and 158 performance measures have been identified.

The Committee was advised that the Department has adopted a range of performance benchmarking practices for the following services:⁶⁷

Bus services

The current contracts for some 47 metropolitan bus services are based on Industry Best Practice Benchmarks established by an independent consultant.

Country train and metropolitan train and tram services

In line with the Kennett Government's commitment set out in the Passengers' Charter announced in 1998, operators of the newly franchised country train and metropolitan train and tram services will be expected to deliver agreed levels of service based on set passenger service requirements. Operator performance will be monitored in terms of the delivery of the published timetable, the

⁶⁷ Department of Infrastructure, Response to Committee's Questionnaire, 1999, p.60

provision of alternate transport where services are cancelled, and advice to passengers regarding changes to the published timetable.

VicRoads

VicRoads uses the Austroads National Performance indicators to compare its performance, and the performance of the Victorian road system with other Australian and New Zealand road agencies.

8.3 Corporate and business plans

At the date of preparation of this Report, the Committee had not received copies of the Department's Corporate and Business Plans and therefore is unable to review the Plans.

The Committee recommends that:

Recommendation 8.1:

The Department of Infrastructure be required to complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

8.4 Budget overview

As outlined in Exhibit 8.1, the Department will receive an increase in outlays of \$262.3 million from the previous year.

Exhibit 8.1

Departmental Output Group	1998-99 Budget (\$million)	1998-99 Revised (\$million)	1999-2000 Budget (\$million)	(col 3-1) Variation (percentage)
Strategic Land Use, Transport and Built Form Planning	9.8	9.4	19.6	100.2
Public Transport Services	1153.5	1204.2	1239.9	7.5
Transport Infrastructure and Public Development Projects	615.1	680.8	746.1	21.3
Transport Safety and Standards	119.7	158.1	155.2	29.6
Local Governance Planning and Development	75.7	74.2	75.4	-0.4
Total	1973.8	2126.7	2236.1	13.3

Source: 1999-2000 Budget Paper No. 3, Budget Estimates, page 105

8.5 Key issues facing the Department

In response to the Committee's questionnaire, the Department identified the following key issues that impact on the budget estimates for 1999-2000:

- meeting major government commitments, specifically the Docklands Public Works component and the acceleration of tram infrastructure;
- addressing urgent public safety and asset repair needs;
- building further growth and employment opportunities through the development of strategic transport infrastructure, providing high economic returns through reduced travel costs and time savings, improved road and transport safety and better links between country and city networks and between activity centres;
- building cohesive communities in partnership with local government, business and community representatives to enhance quality of life and urban and rural amenity; and
- ensuring high quality accessible services supported by on-line information and service delivery.

8.6 Outsourcing arrangements

The Committee notes that a significantly high proportion of the Department's budgeted outputs are delivered by external providers under contractual arrangements. After the privatisation of public transport, the figure is expected to be in excess of 90 per cent.

8.7 Public transport franchising arrangements

The Government has determined the following objectives in the franchising of passenger rail businesses:

- improve progressively the quality of service;
- secure a sustained and substantial increase in patronage;
- minimise long term costs to taxpayers;
- transfer risk to the private sector; and
- maintain safety.

The Committee was advised that the franchising agreements were finalised in June and July and the five contracts came into effect on 29 August 1999. At that time the private operators became responsible for rolling stock valued at \$1.29 billion.⁶⁸

Victoria's new public transport operators are:

- *Yarra Trams* -incorporating a tram service comprising 10 routes from 4 depots, encompassing both the north-eastern and southern suburbs, as well as the central business district;
- *V/Line Passenger Corporation* - responsible for the provision of a network of integrated train and coach services throughout regional and rural Victoria;
- *Bayside Trains* - incorporating train services to and from Melbourne's northern, western and south-eastern suburbs through a network of 9 rail lines;
- *Swanston Trams* - covering the north-western and south-eastern suburbs and the Melbourne central

⁶⁸ Hon. R Cooper, Minister for Transport, transcript of evidence, 10 August 1999, p.182. Information updated by Mr John Rogan, Office of the Director of Public Transport, 27 January 2000

business district. The business operates 17 routes from 4 tram depots; and

- *Hillside Trains* - incorporating train services to and from Melbourne's eastern and north-eastern suburbs.

The franchise agreements with the private operators prescribe minimum service requirements and performance targets, regulate maximum fares, provide for the payment of subsidies and concession fare supplements and contain incentive and penalty regimes for operational performance, passenger growth and customer satisfaction. In addition, the agreement specifies the franchisees' maintenance, renewal and improvement obligations with respect to the infrastructure assets.

The new rolling stock is subject to a 15 year lease arrangement under which, at the end of the first franchise period, the rolling stock will be returned to the ownership of the government; if there is a new franchisee the rolling stock will be transferred to the new franchisee.⁶⁹

The private operators of both train and tram services will be required to introduce new rolling stock as part of their contractual obligations. Under the terms of the agreement, Bayside Trains and Hillside Trains are required to refurbish the existing Comeng rolling stock. The Minister for Transport advised the Committee that for metropolitan trains, a total of \$859 million will be spent on new rolling stock. Specifically, Bayside Trains will invest \$470 million in new rolling stock and Hillside Trains an amount of \$314 million. In addition, \$275 million will be spent on upgrading trams and \$158 million will be spent by V/Line Passenger Corporation to upgrade country trains.⁷⁰

The Committee also understands that inter-operator agreements have been entered into between franchisees covering such issues as revenue allocation, management of the contract associated with the automated ticketing system, track access, station access, operating and electrical control systems, and maintenance.

The Committee notes that the Office of the Director of Public Transport has been established within the Department of

⁶⁹ Hon. R Cooper, Minister for Transport, transcript of evidence, 10 August 1999, p.183

⁷⁰ Ibid, p.182

Infrastructure to monitor the government's contracts with the franchisees and ensure they comply with service standards.

In addition, the Committee understands that the Regulator-General will have to arbitrate access disputes where a third party operator is unable to agree on the terms and conditions of access to rail infrastructure.

8.8 Fare evasion and revenue protection

The Committee was advised that in the period November 1998 to February 1999 there was a significant increase of vandalism to automatic ticket machines at metropolitan railway stations. Some 243 items of automatic ticketing equipment were damaged by corrosive liquid at 142 railway stations and a further 39 machines were damaged by other means.

The Committee noted that the cost of repairs to the damaged machines was initially met by Onelink. In addition, the Public Transport Corporation incurred costs totalling \$3.4 million for the employment of security guards to protect the machines while security modifications were being made to machines that were not damaged.

The Minister advised that in accordance with its contract, Onelink can submit a claim for damages in excess of \$2 million. The success of any claim would depend on whether Onelink can prove that the damage caused was not due to a design fault. Onelink has until the end of 1999 to submit a claim arising from the damage repair bill. While to date no claim has been submitted by Onelink, the Minister expects a 50-50 sharing of costs between the Government and Onelink. The Minister advised that should a claim be submitted, it will be dealt with strictly in accordance with the terms of the contract.⁷¹

The Committee was advised that since early December 1998, the introduction of significant revenue protection measures, particularly on trams, has seen a revenue increase. The Department is currently waiting on final revenue figures for 1998-99. However, interim advice suggests that public transport revenue will be \$4.1 million higher than in 1997-98. This is due to

⁷¹ Ibid, p.177

increased patronage (\$1.8 million) and a 3 per cent increase in fares from 1 January 1999 (\$2.3 million).⁷²

The Minister advised that fares on public transport will be reviewed annually and will be increased in line with CPI movements. Concessions for pensioners, students and other groups will be protected. In addition, the Minister advised that, at the discretion of the Government, a 'one-off' increase of up to 5 per cent may be charged by private operators to compensate for the introduction of the GST. The Department is waiting on final figures to determine what the likely increase will be.⁷³

8.9 Human resources

The Department has estimated that at 30 June 1999, it will have 611 staff, a decrease of 17 per cent in the overall departmental staffing level. The reduction in staffing is a consequence of the reforms taking place in the transport area of the Department and a restructure of the divisions within the Department.

⁷² Ibid. p.176.

⁷³ Ibid. p.186.

CHAPTER 9 DEPARTMENT OF JUSTICE

9.1 Introduction

The Department's key portfolio responsibilities and service delivery obligations can be broadly categorised as policy and legislation, justice, fire and emergency, and fair trading and equity issues.

9.2 Output management framework

In 1999-2000, the Department has 11 output groups for which 37 major outputs and 183 performance measures have been identified (the comparatives for the prior year were 10, 36 and 203 respectively). The Committee notes that output groupings for 1999-2000 have been marginally modified. Specifically, *Legal and Court Services* groupings has been split into 2 groups *Legal Services* and *Court and Tribunal Services* to allow further disaggregation of case processing output management in the various court jurisdictions. In addition, the *Equity and Information Services* group has been reconstituted as *Fair Trading and Equity Services*. No explanation has been given for these changes.

9.3 Corporate and business plans

The Department of Justice's Corporate and Business Plans were incomplete at the time of this report and therefore could not be reviewed by the Committee.

The Committee was, however, provided with a copy of the Corporate and Business Plan covering the operations of the Victoria Police for 1999-2000. The Committee reviewed this comprehensive Corporate and Business Plan.

The plan identifies an overall organisational philosophy that encompasses a mission, values and operational policing philosophies. In addition, the plan has identified the challenges faced by Victoria police and sets the direction for the future.

Exhibit 9.1 highlights the information contained in the Business Plan compared to that required by the Department of Treasury and Finance Guidelines.⁷⁴

Exhibit 9.1

Requirement	Status
Output Statements	Included
Output Groups	Included
Output Operating Statements	Included
Performance Measures	Included
Targets	Included
Resource Requirements	Included
Outcome evaluation plans	Not Included
<i>Financial Statements</i>	
Statement of financial position	Included
Operating statement	Included
Cash flow statement	Not Included
Capital Expenditure forecast	Included

As indicated by Exhibit 9.1, the Business Plan meets most of the guideline requirements. However, the Committee believes that the Plan could be enhanced by the inclusion of a budgeted cash flow statement and importantly, a plan for evaluating the outcomes which have been achieved against the objectives, to ensure that the activities of Victoria Police are clearly focused on achieving the stated objectives.

The Business Plan illustrates in a diagram, the Planning, Budgeting and Reporting process of Victoria Police.⁷⁵ The diagram provides an overview of the process from the identification of outputs and the development of performance indicators through to reporting to Government. It is pleasing to see a comprehensive business plan in use by the Police.

The Committee recommends that:

Recommendation 9.1:

⁷⁴ Department of Treasury and Finance, A Guide to Corporate and Business Planning, Draft, 12 April, 1996, p.12

⁷⁵ Victoria Police Business Plan 1999-2000, p.5

The Department of Justice complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

9.4 Budget overview

As outlined in Exhibit 9.2, the Department will receive an increase in outlays of \$166.3 million from the previous year.

Exhibit 9.2

Departmental Output Group	1998-99 Budget (\$million)	1998-99 Revised (\$million)	1999-2000 Budget (\$million)	(col 3-1) Variation (percentage)
Legal Services	97.6	129.7	160.7	64.7
Court and Tribunal Services	139.3	153.8	181.4	30.2
Fair Trading and Equity Services	70.5	63.4	53.3	-24.5
Correctional Services	179.4	184.8	190.2	6.0
Community Safety Services	61.2	61.7	62.5	2.2
Crime Prevention and Community Support Programs	250.2	368.8	394.4	57.6
Incident and Event Management	145.2	87.5	91.4	-37.1
Crime Investigations	270.5	224.8	231.4	-14.4
Road Safety and Road Trauma Reduction	203.1	93.0	87.1	-57.1
Supporting the Judicial Process	71.1	223.2	233.2	228.0
Information and Licensing Services	65.6	33.4	34.2	-47.8
Total	1553.6	1624.1	1719.9	10.7

Source: 1999-2000 Budget Paper No. 3, Budget Estimates, page 138

The increase in expenditure is mainly attributable to the following:

- salary increases across the Justice portfolio (\$64.1 million);

- contractor's payments for the administration of Melbourne City Link toll enforcement activities and the assumption of the administration of Traffic Camera Office/Enforcement Management Unit activities from Police and Justice personnel (\$21.4 million);
- increased funding for additional police (\$11.9 million), legal aid services (\$4 million) prison capacity and diversion programs (\$6.7 million);
- Victorian Electoral Commission funding for the State election; and
- \$10.1 million for Y2K rectification.

As exhibit 9.2 illustrates, significant variations occur in most output groups. While the budget papers provide some explanation of the overall increases in output group expenditure, the Committee is concerned at the lack of information available in the Budget Papers to explain variations from 1998-99 original and revised figures to 1999-2000 estimates.

9.5 Human resources

The number of full time equivalent staff for the Justice portfolio is expected to decrease by 274 with the majority of separations occurring within the Police portfolio. The Committee was advised that the number of sworn staff would decrease from 9,817 to 9,525 and unsworn staff would decrease from 1,755 to 1,644 in the period from June 1998 to May 1999. In addition, the operations of the Victorian Financial Institutions Commission has been transferred to the Commonwealth jurisdiction resulting in a reduction of 33 in the Department's staff numbers.

Exhibit 9.3

Division	June 1998 (actual)	May 1999 (estimate)
Executive Management	49	58
Justice Operations	1264	1251
Corporate Services	195	205
Fair Trading and Equity	406	378
Legal	2133	2248
Departmental Total	4047	4140
Country Fire Authority	745	790
Legal Professional Tribunal	6	6
Metropolitan Fire and Emergency Services Board	1679	1703
Victorian Financial Institutions Commission	33	0
Total Authorities	2463	2499
Victoria Police	11614	11210
Portfolio Total	18124	17849

Source: Response by Department of Justice to the Committee's estimates questionnaire, page 37

9.6 Key issues facing the Department

In response to the Committee's questionnaire, the Department identified the following key issues that will impact on the budget estimates for 1999-2000:

9.6.1 Additional demands on police services

The Committee was advised that the following critical factors are currently impacting on the ability of the police workforce to maintain its effectiveness:

- the changing nature of crime, especially the escalating drug issue and associated criminal activity and more sophisticated white collar crime; and
- the additional demand placed on police resources resulting from the staging of major events in the next 18 months and the encouragement of a more dynamic nightlife with the widespread availability of 24 hour licensing.

The Committee notes that the need for additional police resources has been recognised in the 1999-2000 Budget with additional funds provided to recruit 400 additional police officers over the next two years. An amount of \$11.9 million has been allocated in the 1999-2000 Budget and a further \$21.8 million in 2000-2001.

9.6.2 Extra prison capacity and piloting imprisonment alternatives

The Committee was advised that the Department is faced with an immediate challenge in the oversight and operation of correctional services in Victoria. A continuing increase in the prison population necessitates the development of both short and medium term strategies to deal with the present and future prison crowding problems.

To address these problems, initiatives contained in the 1999-2000 Budget include an additional \$6.7 million to fund:

- expansion of capacity of the prison system to accommodate young remand and short sentence prisoners and to enhance the support services (particularly intensive drug treatment) for these and other 'at-risk' prisoner groups; and
- establishing pilot programs to divert certain categories of young offenders from imprisonment; and
- substantial enhancement of the programs provided to offenders, particularly drug treatment and rehabilitation.

9.6.3 Establishment of a police and emergency service mobile data network

The emergency response activities of the State's emergency services organisations have been enhanced in recent years by the outsourcing of computer aided call taking and dispatch services and the development of shared emergency services communications capability. The next stage is to underpin business reforms in the Victoria Police and enhance operational services and partnership capabilities across the emergency services organisations through the introduction in all emergency service vehicles of mobile data terminals, development of automatic

vehicle location capabilities and the replacement of obsolete mobile radio equipment.

9.6.4 *Y2K Departmental systems remediation and disaster management contingency planning*

The Committee was advised that remediation and testing of business processes and systems for year 2000 compliance will be completed during 1999. Contingency plans will be developed to cover any potentially significant disruption to essential services. The Committee noted that amendments to the *Emergency Management Act 1986* and related legislation are being considered to clarify definitions and establish appropriate powers for any Y2K incidents that may arise. An additional \$10.1 million has been provided in the 1999-2000 Budget to meet Y2K rectification costs which could not be met from within existing Departmental budget resources.

9.6.5 *On-line 2001 ESD service implementation*

The Department is committed to implementation of the Government's strategy and targets to have services delivered electronically on-line by the year 2000. In addition to establishing Internet web sites, major initiatives that are being implemented include:

- Office of Fair Trading and Business Affairs participation in the Government's business channel;
- Victoria Police and Emergency Service Organisation participation in a proposed emergency channel;
- availability of many of the services of the Registry of Births, Death and Marriages and Victorian Electoral Commission via 'maxi-kiosks'; and
- electronic lodgement of Court and Tribunal documents.

9.7 Powers of the Auditor-General to examine non-judicial functions of Victorian Courts

In the report on Ministerial Portfolios, the Victorian Auditor-General raised an important issue regarding his ability, under current legislation, to perform audits within the State's court system. The Auditor-General indicated that as a result of a Solicitor-General's legal opinion, he had been forced to curtail the scope of several audits since 1996.

The Solicitor-General's opinion, which related to a performance audit of the Victorian Children's Court, stated that:

“as the scope of the Audit was beyond the jurisdiction of the Auditor-General under the Audit Act 1994, there was no authority to table the report in Parliament. The Auditor-General had no jurisdiction to undertake an audit in relation to the functioning of that Court (Children's Court) and therefore no power to report on such an audit. Likewise I do not consider that the Auditor-General has jurisdiction to undertake an audit in relation to the functioning of any other Court constituted under Victorian law.”⁷⁶

The Auditor General expressed concern that, while expenditure directly controlled by the Department covering the operations of the State's judicial bodies totalled around \$179 million and controlled assets amounted to over \$160 million, there has been no information channelled to the Parliament from the Auditor-General since 1996 on the performance of the Department of Justice and judicial bodies in discharging their responsibilities for the efficient management of resources.⁷⁷

The Auditor-General's Office recently consulted with the Committee on the planning of a performance audit dealing with the operations of the State Trustees. The Committee notes that this review is to include provision for evaluation of the activities of certain bodies including the Victorian Civil and Administrative Tribunal and the Senior Master of the Supreme Court relating to their roles with respect to represented persons. However, the Auditor-General has indicated that given the circumstances of his capacity to undertake an audit of management procedures within

⁷⁶ Victorian Auditor-General, Report on Ministerial Portfolios, May 1999, p.208

⁷⁷ Ibid, p.213

courts, he may not be able to examine matters relating to this area of the audit plan.⁷⁸

In examining the powers of Auditors-General relating to the audit of non-judicial functions of courts in other jurisdictions, the Committee notes that such restrictions placed on the Auditor-General in Victoria are not experienced elsewhere in Australia or New Zealand.

Despite a number of attempts to reach an effective solution on this issue, the Department of Justice and the Auditor-General's Office have been unable to reach agreement. The Auditor-General expressed the view that the only means of remedying the situation is by way of legislative amendment.

The Committee intends to raise this matter with the Attorney-General and, if necessary, report to the Parliament in late 2000 on the outcome of these discussions.

⁷⁸ Ibid, p.213

Report on the 1999-2000 Budget Estimates

CHAPTER 10 DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENT

10.1 Output management framework

The Department is continuing to develop appropriate measures of its activities. Included in Budget Paper No. 3 are performance measures for quality, quantity and timeliness for which targets have been established for 1999-2000, with corresponding figures for 1998-99.

For 1999-2000, the Department (including the Environment Protection Agency) has 12 output groups for which 43 major outputs and 284 performance measures have been identified (the comparatives for the prior year were 12, 44 and 276 respectively).

10.2 Corporate and business plans

At the date of preparation of this Report, the Committee has not received copies of the Department's Corporate and Business Plans and therefore was unable to review the Plans.

The Committee recommends that:

Recommendation 10.1:

The Department of Natural Resources Environment complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

10.3 Budget overview

As outlined in Exhibit 10.1, the Department will receive an increase in outlays of \$199.3 million from the previous year.

Exhibit 10.1

Departmental Output Group	1998-99 Budget (\$million)	1998-99 Revised (\$million)	1999-2000 Budget (\$million)	(col 3-1) Variation (percentage)
Minerals and Petroleum	12.3	13.4	17.8	44.3
Forests Management	89.6	103.0	115.1	28.5
Fire Management	40.0	49.7	50.2	25.4
Fisheries	17.4	18.6	30.7	76.6
Agriculture Industries	135.2	125.2	143.2	5.9
Agriculture Quality Assurance	21.3	36.3	25.9	21.8
Catchment Management and Sustainable Agriculture	122.5	102.9	133.6	9.0
Pest Plant and Animal Management	15.4	18.8	17.6	14.1
Water	7.0	3.3	3.3	-52.8
Land Management and Information	75.7	87.3	108.3	43.0
Conservation and Recreation	87.3	145.7	174.1	99.6
Environment Protection	37.9	37.1	41.2	8.5
Total	661.6	741.4	860.9	30.1

Source: 1999-2000 Budget Paper No. 3, Budget Estimates, p.184

The Committee noted variances in all output groups, including an increase of \$25.5 million for forest management (as a result of the reclassification of part of Forest Logging Roads Receipts as payment for outputs), \$32.6 million towards the Land Titles Automation Project, and \$86.8 million allocated to conservation and recreation, \$67 million of which represents expenditure for the first time through the newly established Parks and Reserves Trust.

The productivity dividend expected for 1999-2000 is \$4.125 million and is to be applied across all output groups. The most significant gain expected to be achieved is an amount of \$1.05 million resulting from the consolidation of Web Purchasing and Electronic Corporate Card.

10.4 Human resources

The Department has estimated that as at 30 June 1999, it will have 4 204 staff working in 12 divisions which is a reduction of 112 (2.6 per cent) from the 1998-99 actual.

Exhibit 10.2

Division	30 June 1998 (actual)	30 June 1999 (estimate)
Ministerial	12	12
Secretariat	4	3
Catchment management	113	75
Corporate management	386	197
Forests service	151	139
Land Victoria	619	560
Minerals and petroleum	134	129
Parks, flora and fauna	155	165
Portfolio management	77	75
Primary industries	1181	1196
Regional services	1482	1650
Mining Warden and staff	2	3
Total	4316	4204

Source: Response by Department of Natural Resources and Environment to the Committee's estimates questionnaire, page 61

As can be seen from Exhibit 10.2, significant staff reductions have occurred in Catchment management (38), Corporate management (189) and Land Victoria (59), whereas, staff numbers have increased by 168 at regional locations.

The Committee was advised that a number of strategies are currently being implemented to support the Department in achieving its business objectives. The Committee was particularly interested in the establishment of a corporate leadership and succession planning program incorporating strategies to manage the aging workforce and determine the future workforce skill mix.

10.5 Key issues facing the Department

In response to the Committee's questionnaire, the Department identified the following key issues which will impact on the budget estimates for 1999-2000:

10.5.1 Undertaking initiatives for building the State's scientific and technological capability

The government recently conducted a review of public sector expenditure on Science, Engineering and Technology (SET). To address the recommendations contained in the review, the Department has developed the initiative – 'Growing Horizons'. This initiative is an integrated \$25 million package that is intended to generate new knowledge and technologies and facilitate market expansion in relation to the food and agricultural sciences.

10.5.2 Determining strategies for dealing with financial pressures facing farmers in the broadacre grazing industries

The Committee was advised that increasing financial pressures facing farmers in the broadacre grazing industries will impact on the achievement of natural resources management outcomes. A review is currently underway of the Department's dryland agriculture and land management key projects to determine strategies for dealing with the issue. The Department will also examine the structural adjustment issues facing the wool industry.

10.6 State's share of assets managed by the Murray Darling Basin Commission

The Committee sought clarification about the recognition of Victoria's interest in the assets of the Murray Darling Basin Commission (MDBC).

The Committee was advised that MDBC is responsible for the construction, operation and maintenance of specific system structures on the Murray River. Historically, each of the four participating governments (Victoria, New South Wales, South Australia and the Commonwealth) have each contributed 25 per cent capital costs of MDBC total assets. In addition, Victoria has contributed 33.3 per cent of the operations and maintenance costs.

The Committee was interested to learn that the value of Victoria's share of MDBC assets is around \$170.3 million, however, these assets are not reported in the Department's annual financial statements.

The Committee was advised that when MDBC was set up in the late 1980s, by a series of State and Commonwealth Acts, the assets of each of the contracting governments were transferred into the management and control of MDBC and are not controlled by the States. The Department further advised that MDBC has operated in a framework whereby State and Commonwealth Ministers, as members of the Ministerial Council collectively, manage those assets. The Committee was told that the Department is not comfortable with this arrangement and has raised its concerns both through the Council of Australian Governments (COAG) water reform process and with Commonwealth officials.⁷⁹

The Committee notes the concerns of the Victorian Auditor-General regarding the non-recognition of these assets in the State's balance sheet.⁸⁰ In response to that report, the Department advised that the Department of Treasury and Finance will review the nature of the State's interest in the Murray Darling Basin Commission in the light of a forthcoming Australian Accounting Standard on the issue of entities subject to joint control, and make an assessment on what assets should be recognised in the Annual Financial Statement.⁸¹

The Committee recommends that:

Recommendation 10.2:

The Department of Treasury and Finance review the nature of Victoria's interest in the assets of the Murray Darling Basin Commission (MDBC) to determine to what extent the Department of Natural Resources and Environment has control of MDBC assets, the value of those assets

⁷⁹ Mr. M. Taylor, Secretary, Department of Natural Resources and Environment, transcript of evidence, 4 June 1999, p.43

⁸⁰ Auditor-General's Report on the Victorian Government's Finances, 1997-98, p.111

⁸¹ Ibid, p.112

**and the reporting obligations of the
Department in relation to these assets.**

10.7 Native title claims

The Department has received 47 Native Title claims as at the end of May 1999. These claims represent around fifty per cent of Crown Land in Victoria, covering approximately 4.3 million hectares. To date only one of these claims has been heard and is currently under appeal in the Supreme Court.

The Minister for Conservation and Land Management advised the Committee that the Department has developed new skills and put into place new administrative frameworks to manage Native Title claims. While these initiatives have reduced the costs considerably, nevertheless administering the claims is still an expensive exercise in direct costs to the Department (around \$3 million per year).⁸²

10.8 Land Titles Office

The Committee was interested to learn of the progress made on the land titles automation project. This project represents a large investment costing around \$65 million to fully implement. The Committee was advised that progress has been slow with about 25 per cent of titles automated in 1995, 1996 and 1997. However, the Office is committed to having 95 per cent of all titles on-line by the end of 2000. The Minister advised that all paper records will be digitised. Improved processing times will mean that a title search that used to take up to three days will now be processed immediately. In addition, there will be greater security of documents as well as reduced costs for business.⁸³

⁸² The Hon. M. Tehan, Minister for Conservation and Land Management, transcript of evidence, 4 June 1999, p.45

⁸³ Ibid, p.48

CHAPTER 11 DEPARTMENT OF PREMIER AND CABINET

11.1 Output management framework

For 1999-2000, the Department has 10 output groups for which 28 major outputs and 151 performance measures have been identified (the comparatives for the prior year were 11, 32 and 157 respectively).

The Committee noted that for 51 performance measures the Department has set achievement targets of 100 per cent. While the Committee is pleased to learn that the Department has committed itself to such high targets of performance, it questions whether these targets are realistic and achievable. For example, the Department expects 100 per cent achievement in such measures as - advice meets relevant quality standards, sensitive visitor dignity security achieved, project monitoring and evaluation is effective, research projects methodology meets industry standards and satisfaction of the Ombudsman and Commonwealth Attorney-General with the process of complaints investigation. The nature of these measures are such that an assessment of their achievement is at best subjective.

At the estimates hearing, the Committee was advised that developing performance measures in the Department of Premier and Cabinet is difficult as the majority of the activities involve providing policy advice on a broad range of issues. The Secretary to the Department of Premier and Cabinet indicated that judging the quality of advice is very difficult.⁸⁴

The Committee recommends that:

⁸⁴ Mr W. Scales, Secretary, Department of Premier and Cabinet, transcript of evidence, 10 June 1999. p.92

Recommendation 11.1:

The Department of Premier and Cabinet review its performance targets in relation to those measures for which one hundred percent achievement is expected, to ensure whether such targets are appropriate, achievable and can be reliably measured.

11.2 Corporate and business plans

The Department's Corporate and Business Plans covering the 1999-2000 year were not provided to the Committee. The Committee was advised that the Corporate Plan 2000-2004 is being developed.

The Committee recommends that:

Recommendation 11.2:

The Department of Premier and Cabinet complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

11.3 Provision of outputs

As outlined in Exhibit 11.1, the Department will receive an increase in outlays of \$96.8 million from the previous year.

Exhibit 11.1

Departmental Output Group	1998-99 Budget (\$million)	1998-99 Revised (\$million)	1999-2000 Budget (\$million)	(col 3-1) Variation (percentage)
Strategic Leadership	42.7	34.4	48.1	12.7
Protocol and Events Management Services	2.5	2.7	2.7	8.0
Government Information and Communications	7.2	7.6	7.3	1.4
Community Support Fund	69.0	62.5	101.4	47.0
Multicultural Affairs	2.9	2.8	3.0	4.3
Implementation of Arts 21	160.2	154.6	217.8	35.9
Strategic Human Resource Management	4.7	4.1	4.0	-15.0
Ombudsman Complaint Resolution	2.6	2.7	2.9	8.4
Legislative Drafting and Publishing Services	3.0	2.7	3.2	6.7
Advice and Support to the Governor	4.5	4.5	5.7	27.2
Total	299.2	278.7	396.0	32.3

Source: 1999-2000 Budget Paper No. 3, Budget Estimates, page 239

The increase is attributable to the following:

Strategic Leadership

- \$5.4 million – for new initiatives, including an assistance package to Indonesia, the rural and regional strategy and the rural leadership strategy.

Community Support Fund

- an increase in grants payments of around \$32.4 million is expected during 1999-2000.

Implementation of Arts 21

- a budgeted increase of around \$57.6 million is mainly attributable to the opening of the new museum complex and the application of a capital assets charge on the assets of the National Gallery, Museum and Library. In addition, funds are

allocated for the refurbishment of the Royal Exhibition building and the upgrade of various regional arts centres.

The Committee notes that the Department achieved productivity gains of \$1.5 million in 1998-99. These gains were absorbed across all output groups within the portfolio except for the *Advice and Support to the Governor* output group and the former *Ministerial and Parliamentary* program, both of which have been exempted from productivity savings. The 1999-2000 productivity savings for the Department are expected to total \$1.628 million and will be applied in the same manner as in the previous year. The Committee noted that the former Ministerial and Parliamentary program has been subsumed into the Strategic Leadership output group.

11.4 Human resources

The Department has estimated that as at 30 June 1999, it will have 417 staff working in 9 divisions compared with 402 in 1998-99.

Exhibit 11.2

Division	30 June 1998 (actual)	30 June 1999 (estimate)
Cabinet Office	73	78
Office of State Administration	70	66
Community Support Fund	8	7
Arts Victoria	87	122
Multicultural Affairs	10	10
Ministry and Parliamentary	64	65
Office of Public Employment	32	20
Office of Chief Parliamentary Counsel	30	28
Office of the Ombudsman	28	21
Total	402	417

Source: Response by Department of Premier and Cabinet to the Committee's estimates questionnaire, page 35

In response to the Committee's questionnaire, the Department indicated that the key human resource issue facing the Department is the ability to attract suitable people to fill specialist roles. The

Committee was advised that many of the State's senior public servants will reach retirement age in the next few years and that this situation represents a serious recruitment problem that needs to be addressed. In response to this challenge, the Secretary of the Department informed the Committee that strategies are being developed to address the issue. In addition, the Department has a program in place to accelerate the leadership development of many of the next tranche of potential public sector leaders.⁸⁵

The Committee recommends that:

Recommendation 11.3:

The Office of Public Employment undertake a skills audit to determine the level of skills and the future requirements of the Victorian Public Sector.

11.5 Key issues facing the Department

In response to the Committee's questionnaire, the Department identified the following key issues that will impact on the budget estimates for 1999-2000:

11.5.1 Arts agencies redevelopment

The Department advised that several arts projects would be completed over the next twelve month period. Key initiatives provided with new funding in 1999-2000 include:

- on-going redevelopment of the State Library of Victoria;
- commencement of rectification works at the arts agencies to meet the requirements of the Disability Discrimination Act;
- upgrade of public and technical facilities at the Victorian Arts Centre;
- completion of the restoration of the Royal Exhibition Building;

⁸⁵ Mr W. Scales, AO, Secretary, Department of Premier and Cabinet, transcript of evidence, 10 June 1999. p.90

- the development of an asset management plan for the arts agencies;
- refurbishment of the Sydney Myer Music Bowl; and
- on-going works in the development of Federation Square.

11.5.2 Rural and regional strategy

The Department is to establish a whole of government fund to be used to assist other departments who have responsibilities under the government's rural and regional strategy. A major element of this strategy will comprise a leadership development initiative to supplement existing regional and local leadership programs and support on-going regional leadership forums.

11.5.3 Greenhouse gas emissions

An initiative is underway to meet the government's commitment to invest in new initiatives to reduce greenhouse gas emissions, enhance greenhouse sinks, and assist Victoria to plan and respond to the challenges of climate change in the future.

11.5.4 Strategies to strengthen the public sector

In 1999-2000, the Department will develop strategies to strengthen the public sector internally to enable more responsive and cost effective service to the community.

11.6 Construction of the Melbourne Museum

The Committee was interested to learn of the progress being made on the development of the new Museum complex located at Carlton Gardens. Under the Government's Agenda 21 program, funding for the Museum project, which initially had a project budget of \$250 million, excluding non-government funding, is to be provided by Arts Victoria, from casino revenues.

The Committee was advised that the project has experienced cost increases and delays in completion of the works, and that the

expected final cost of completing the Museum project was around \$287.7 million, an additional \$37.7 million.⁸⁶

The Committee understands that the additional costs are to be funded through a \$13 million capital works allocation supplemented by government. The balance of \$24.7 million is to be funded through contributions by Cinema Plus (as the owners and investors in the IMAX theatre) and also by the Museum through sponsorship and its own revenue raising initiatives.

The reasons given for the cost increase related generally to the increase in the scope of the works. A recent report from the Auditor-General has identified the following key factors impacting on the project's costs:

- increase in the size of the associated car park from 600 to 900 spaces at an additional cost of \$8.3 million;
- expansion of the public exhibition program, resulting in the increase in associated costs from \$30 million to \$48 million, mainly due to a previous lack of detailed costings; and
- increased scope of works associated with the IMAX theatre, including difficulties experienced in the treatment and removal of contaminated soil and water seepage from the site, at additional cost of \$17 million.⁸⁷

The Committee understands that, given the complexity of the project and problems encountered with the excavation site, completion of the project has been delayed by 6 months. It is expected that the fit out of the complex will take approximately a year and the Museum will be opened to the public in July 2000.

11.7 Community Support Fund

⁸⁶ Ms L. Alway, Director, Arts Victoria, Department of Premier and Cabinet, transcript of evidence, 10 June 1999, p.70

⁸⁷ Victorian Auditor-General, Report on Ministerial Portfolios, May 1999, p.281

During 1997-98, \$96.9 million was paid into the Community Support Fund (CSF), an increase of \$9.2 million over the previous year's income. The Committee noted that during the 1998-99 financial year, 46 grants were approved totalling \$54.6 million. An increase in grants payments of around \$32.4 million is expected during 1999-2000.

The Budget Papers provide performance measures to assess outcomes of community and government agency awareness of the activities of the Fund. However, from the information provided in the Department's annual report, the Committee was unable to ascertain whether these measures were achieved.

The Committee was advised that for a project to proceed it must pass the criteria of 'benefit to the community'⁸⁸.

Key performance measures relating to project monitoring and evaluation are contained in the Grants Program major output. Details of projects approved are listed as an appendix in the Department of Premier and Cabinet's Annual Report.

The Gaming Machine Control Act 1991 requires the Victorian Casino and Gaming Authority commission to research, and advise the Minister on, the social impact of gambling, and this is funded through the CSF.

The Committee was advised that since the commencement of the CSF, expenditure totalling around \$1.8 million had been allocated to research the social impact of gambling. The Committee was further advised that around \$60 million has been allocated for anti-gambling programs managed by the Department of Human Services, including \$1.5 million for the development of a research strategy on gambling and \$7.5 million to the community education program. The Committee notes that, as at 30 June 1999, around 50 per cent of the total amount committed has been expended on projects that include initiatives to address problem gambling.

⁸⁸ Mr. W. Scales, AO, Secretary, Department of Premier and Cabinet, transcript of evidence, 10 June 1999, p.77

CHAPTER 12 DEPARTMENT OF STATE DEVELOPMENT

12.1 Performance measures

Included in Budget Paper No. 3 (pages 279-305) are performance measures for quality, quantity and timeliness for which targets have been established for 1999-2000, with corresponding figures for 1998-99.

For 1999-2000, the Department has 6 output groups for which 35 major outputs and 225 performance measures have been identified (the comparatives for the prior year were 6, 36 and 184 respectively).

12.2 Corporate and business plans

The Department did not provide the Committee with copies of its Corporate or Business plans.

The Committee recommends that:

Recommendation 12.1:

The Department of State Development complete its Corporate and Business Plans in time for the budget estimates inquiry process and provide copies to the Public Accounts and Estimates Committee.

12.3 Budget overview

As outlined in Exhibit 12.1, the Department will receive an increase in outlays of \$44.4 million from the previous year.

Exhibit 12.1

Departmental Output Group	1998-99 Budget (\$million)	1998-99 Revised (\$million)	1999-2000 Budget (\$million)	(col 3-1) Variation (percentage)
Strategic Leadership	17.2	21.4	27.6	60.4
Business Development	84.5	95.7	96.2	13.9
Workforce Capability	16.3	16.1	16.4	0.1
Sport, Recreation and Racing	26.4	34.0	43.8	66.0
Small Business and Regulation Reform	13.8	13.8	15.3	10.5
Tourism	39.0	41.9	42.5	9.0
Total	197.2	222.8	241.6	22.6

Source: 1999-2000 Budget Paper No. 3, Budget Estimates, page 278

In response to the Committee's questionnaire, the Department indicated that the increase is mainly attributable to new spending on government initiatives for science, engineering and technology, Melbourne Sports and Aquatic Centre expansion and the Geelong Water Sports Complex. The Department further indicated that it will absorb the 1.5 per cent productivity saving without any reduction in its capacity to deliver services, however, no details were provided of how productivity dividends will be achieved.

12.4 Human resources

The Department has estimated that as at 30 June 1999, it will have 730 staff working in 9 divisions compared with 732 in 1998-99.

Exhibit 12.2

Business Unit	30 June 1998 (actual)	30 June 1999 (estimate)
Business and rural development	106	97
International and investment facilitation	43	46
Employment Victoria	68	71
Multimedia Victoria	40	50
Small business and regulation reform	133	115
Sport, recreation and racing	85	94
State development policy	38	47
Tourism Victoria	121	110
Corporate management and support	98	100
Total	732	730

Source: Response by Department of State Development to the Committee's estimates questionnaire, page 37

12.5 Key issues facing the Department

The Department identified the following key issues which will impact on the budget estimates for 1999-2000:

- further strengthening the Science, Engineering and Technology base;
- accelerating the Regulation Reform Program;
- facilitating the uptake of e-commerce and providing people with confidence to go on-line and, addressing privacy and security concerns through the legislative process;
- further developing and strengthening the film and television industries; and
- enhancing Victoria's position as a competitive tourist destination and, in particular, capitalise on the opportunities arising from the Sydney 2000 Olympics.

12.5.1 *Accelerating the Regulation Reform Program*

Since 1997, the Government has aimed to reform the State's regulatory regimes, for businesses and industries. The objective of each industry sector review is to understand how Government

regulatory requirements impact on business activities and, where necessary, encourage reform initiatives.

Recent regulation reform activities of the Department include the freeing up of shop trading hours and liquor licensing reform.

The Committee was advised that currently there are eight such reviews underway. In addition, an accelerated program of sectoral reviews is proposed for the next two years with increased funding of \$3 million to support up to 12 additional reviews.⁸⁹

12.5.2 E-commerce and addressing privacy and security concerns

A challenge for the Department is to facilitate the uptake of e-commerce and provide confidence for people to go on-line. Privacy and security concerns have been identified as major obstacles to the acceptance of electronic commerce, service delivery and the growth of information industries in Victoria.

The Committee notes that the Government is committed to the implementation of a regulation regime based on voluntary codes and legislation. To facilitate this, the following initiatives have been undertaken:

- preparation of data protection and electronic framework legislation;
- appointment of a Victorian Privacy Commissioner; and
- establishment of an e-signature recognition body.

12.5.3 Film and television industries

The Committee was advised that the Government has established a Script Development Fund and a Production Investment Attraction Fund as part of a long-term strategy to sustain future development in the Victorian film and television industries.

12.5.4 Victoria as a competitive tourist destination

The Department considers the Sydney 2000 Olympics as a prime tourist opportunity for Victoria which will benefit the State

⁸⁹ 1999-2000 Budget Paper No. 2, Budget Statement, p.95

financially.⁹⁰ The Department estimates that there will be between 300,000 and 400,000 additional tourists in Victoria between 1999-2003. The Committee was advised that the following strategies have been developed by the Department to maximise the opportunities for Victorian tourism resulting from the Olympic Games being held in Australia:

- pre-games marketing;
- pre-games hosting of visiting film crews, journalists and writers; and
- major promotion to media during the games.

The Committee was also advised that the Department aims to consolidate its gains in the domestic and international tourist markets through placing Victorian tourism on-line over the next two years. The Department expects that the 1999-2000 budget initiative supporting the on-line provision of tourism services will enable Tourism Victoria to deliver its services more efficiently and effectively and provide strategic opportunities to increase Victoria's share of the tourist market. The Committee noted that Victorian Tourism on-line will have two components:

- putting all the State's tourist products on-line, linked to key international travel sites and with a full booking capacity; and
- putting Tourism Victoria's advisory and other services to the tourism industry on-line.

The Committee was advised that over the next two years, an amount of \$7.4 million will be spent developing Victorian tourism on-line. The Department will also be encouraging tourism operators in Victoria to have their information and bookings on-line.⁹¹

⁹⁰ Hon. T Reynolds, Minister for Sport and Minister for Rural Development, transcript of evidence, 8 June 1999, p.54

⁹¹ Hon. L Asher, Minister for Small Business and Minister for Tourism, transcript of evidence, 3 August 1999, p.159

CHAPTER 13 PARLIAMENTARY DEPARTMENTS

13.1 Output management framework

For 1999-2000, the five parliamentary departments have 5 output groups for which 11 major outputs and 67 performance measures have been identified (the comparatives for the prior year were 5, 11 and 64 respectively).

The parliamentary departments indicated that performance benchmarking has been introduced in the Parliamentary Departments' Corporate Plan and that efforts have been made to identify appropriate benchmarking partners. However, it was pointed out to the Committee that benchmarking with other parliamentary departments is difficult because of widely differing services, costing and accounting.

The Committee is pleased that generally, each Department has made efforts to develop their own indicators of performance. For example, the Committee was advised that the Department of Parliamentary Services has developed performance criteria for the heritage gardens and that the Parliamentary dining rooms are based on similar businesses. The Parliamentary Library has recently developed statistics on the level of access by members to the library facilities.

The Committee recommends that:

Recommendation 13.1:

The Parliamentary Departments continue to develop performance criteria and benchmarks to enable assessment of their performance.

13.2 Corporate and business plans

In response to a previous recommendation of the Committee, the Parliamentary Departments have adopted a whole of Parliament Corporate Plan, which in the Committee's view will provide a strategic focus to the planning and management of the operations of each department and an effective framework for integrating

common activities. The Plan has been endorsed by the President and the Speaker and a copy was provided to the Committee. The Committee was advised in the questionnaire that each department is currently in the process of preparing business plans.

The Committee examined the consolidated corporate plan and noted that the plan has identified the reporting structure of the Parliament, the role of each department within the structure, their interrelationship with each other and the Parliament as a whole. In addition, the Parliamentary Departments have jointly developed a vision, mission and identified the business environment in which they operate. The Corporate plan sets the direction of the Parliamentary Departments for the next three years and states specific goals and objectives which should translate into specific strategies developed in each Department's business plan. The Committee congratulates the Parliamentary Departments on progress in this matter.

13.3 Budget overview

As outlined in Exhibit 13.1, total budgeted outputs of the Parliamentary Departments for 1999-2000 are \$70 million, a decrease of \$13.3 million or 16 per cent from the previous year.

Exhibit 13.1

Output Group	1998-99 Budget (\$million)	1998-99 Revised (\$million)	1999-2000 Budget (\$million)	(col 3-1) Variation (percentage)
Legislative Council	17.0	13.7	11.6	-32.1
Legislative Assembly	31.0	24.4	19.9	-35.8
Parliamentary Library	1.9	1.9	1.7	-8.3
Parliamentary Debates (Hansard)	2.6	2.5	2.2	-12.7
Department of Parliamentary Services	30.8	32.8	34.5	12.2
Total	83.3	75.3	70.0	16.0

Source: 1999-2000 Budget Paper No. 3, Budget Estimates, p.355

Exhibit 13.1 indicates a decrease in outlays of \$13.3 million from the original 1998-99 figures. The decrease is mainly attributable to the removal of a \$10 million special payment relating to Members' unfunded superannuation and a reduction of \$10 million in the

capital assets charge which will no longer apply to heritage assets. Increased funding of around \$6 million for ParlyNet stage 2 and improvements to parliamentary grounds and facilities partially offsets the decrease.

13.4 Human resources

It is anticipated that overall staff numbers will increase marginally across most output groups. The Parliamentary Departments have estimated that as at 30 June 1999, staffing levels will increase by fourteen.

Exhibit 13.2

Output Group	30 June 1998 (actual)	30 June 1999 (estimate)
Legislative Council	37	39
Legislative Assembly	53	56
Parliamentary Library	21	23
Parliamentary Debates (Hansard)	19	19
Parliamentary Services	34	41
Total	164	178
Electorate Officers (full-time)	153	163
Electorate Officers (part-time)	160	164

Source: Response by the Parliamentary Departments to the Committee's estimates questionnaire, p.17 and 18

The Parliamentary Departments indicated a number of resource issues impacting on their operations, including:

- retention of specialist staff in a highly mobile workforce;
- unattractive working hours and conditions;
- minimal promotional opportunities;
- ability to keep pace with technological change; and
- critical lack of accommodation.⁹²

13.5 Key issues facing the Department

⁹² Response by the Parliamentary Departments to the Committee's estimates questionnaire, p.18

In response to the Committee's questionnaire, the Parliamentary Departments identified the following key issues that will impact on the budget estimates for 1999-2000:

- implementing the second stage of ParlyNet;
- developing a maintenance and capital program to address the needs of Members, staff and committees;
- recruiting staff with specialist skills; and
- on-going costs of keeping electorate office staff in remote locations abreast of new technologies.

13.6 Progress of the ParlyNet project

The ParlyNet project is a computer networking system linking Members electorate offices across the state and provides access to a new range of parliamentary, government and business services. The project was designed to provide Members of Parliament with a secure internal communication network and includes Intranet access, Internet access and an E-Mail system.

The Chief Executive Officer, Department of Parliamentary Services, advised the Committee that currently there is no connection of ParlyNet to external parties. The Committee was advised that this situation is necessary to ensure that the system is secure.⁹³

The Committee is concerned that at present the full benefits of ParlyNet are not being realised due to the restriction on access to the system. Specifically, the Committee noted that staff of Opposition Members located in Parliament House and Parliamentary Secretaries located in Ministers' Offices are not connected to ParlyNet and therefore are unable to use the system.

The Committee notes that \$6 million has been provided in the 1999-2000 Budget for the second phase of ParlyNet which includes the development of security devices and 'firewalls' that will, in the future allow other people to be connected to the ParlyNet system.

The Committee recommends that:

⁹³ Ms C. Haydon, Chief Executive Officer, Department of Parliamentary Services, Parliament of Victoria, transcript of evidence, 27 July 1999. p.133

Recommendation 13.2:

As a priority the following matters be addressed:

- (a) the capacity of ParlyNet to take additional users; and**
- (b) the security concerns associated with the use of the ParlyNet facilities by external parties.**

13.7 Delays in publishing parliamentary reports

The Committee has on several occasions in the past, raised the need for a procedural mechanism that would allow parliamentary committees, when the Parliament is not sitting, to present their reports to the Presiding Officers and the reports would then be deemed to be presented to the Parliament.

The Committee was advised by the Clerk of the Legislative Council that before the procedure can be implemented one of the issues to be resolved concerns whether reports issued in this way, would have full protection of parliamentary privilege.

The Committee was further advised that the proposal for issuing reports when Parliament is not sitting is supported by the Presiding Officers and that the matter is currently being investigated.⁹⁴

The Committee views this as a priority matter and recommends that the *Parliamentary Committee Act 1968* be amended to enable this procedure to be implemented early in the next session of Parliament.

The Committee recommends that:

Recommendation 13.3:

As a priority, the *Parliamentary Committees Act 1968* be amended to enable parliamentary committees, when the Parliament is not sitting, to present their reports to the Presiding Officers and

⁹⁴ Mr A Bray, Clerk of the Parliaments and Clerk of the Legislative Council, transcript of evidence, 27 July 1999. p.142

these reports would then be deemed to be presented to the Parliament and their publication authorised.

APPENDIX 1 ESTIMATES QUESTIONNAIRE

1999-2000

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

ESTIMATES QUESTIONNAIRE 1999-2000

1998-99 Budget Outcomes

Departmental Strategies

- 1.1** What services were outsourced for the first time in 1998-99?
- 1.2** What benefits (including savings) are expected to be achieved through outsourcing of services in 1998-99?
- 1.3** What progress was made during the year against the major initiatives or outlooks identified in the 1998-99 Budget Papers Nos. 2 and 3?
- 1.4** What are the assessed contributions from those initiatives towards identified government outcomes, for 1998-99?
- 1.5** Does the Department have a strategy for:
 - (a) dealing with accumulating liabilities, particularly for managing the accumulation of employee liabilities such as long service leave and annual leave; and
 - (b) accumulating assets to enable the Department to meet these liabilities as they are realised?

Departmental Financial Performance

Please provide the following information:

- 2.1** expected operating revenue and expenses for the 1998-99 financial year in comparison to the amounts budgeted for the year as per the Departmental operating statement of Budget Paper No. 3;

- 2.2** a succinct explanation for each expected variance in excess of 10 per cent;
- 2.3** details of the Department's expected assets and liabilities as at 30 June 1999 in comparison to the amounts estimated in Budget Paper No. 3; and
- 2.4** a succinct explanation for each expected variance in excess of 10 per cent.

Departmental Output Performance

Please provide the following information:

- 3.1** details of the expected achievements against performance measures for the 1998-99 financial year in comparison to the targets established for the year; and
- 3.2** a succinct explanation for each instance where a variance in excess of 10 per cent is expected to be achieved.

Departmental Capital Works

Please provide the following information:

- 4.1** details of the expected capital expenditure to 30 June 1999 in comparison with the amounts budgeted;
- 4.2** a succinct explanation for each expected variance in excess of 10 per cent;
- 4.3** for each project with an expected variance in excess of 10 per cent, the total end cost for the project, if amended from the original total end cost; and
- 4.4** details of projects where the expected completion date has changed from the initial completion date. Please include the new expected completion date.

Capital Assets Charge and Departmental Assets

Please provide the following information:

- 5.1** details of the expected capital assets charge payable for the year in comparison to the amount budgeted;
- 5.2** a succinct explanation for any expected variance in excess of 10 per cent;
- 5.3** details of any movements in asset balances at year end due to the Department recognising previously owned assets in the balance sheet for the first time eg. where the movement is a result of coming to terms with development of asset registers or other improvements in accounting practices;
- 5.4** a succinct explanation of why those assets were not previously included in the balance sheet; and
- 5.5** details of any other significant changes to asset balances during the year.

1999-2000 Estimates of Expenditure

1. Departmental Strategies

Please provide the following information:

- 1.1** an overview of the key strategies to be used by the Department to achieve the major outputs/deliverables detailed in the 1999-2000 Budget Estimates;
- 1.2** a copy of the Department's corporate and business plans covering the 1999-2000 financial year;
- 1.3** an explanation of the mechanisms in place within the Department to ensure that a link is maintained between the Department's overall strategic directions, corporate and business plans and the outcomes achieved;
- 1.4** details of services that are expected to be outsourced for the first time in the 1999-2000 year;

- 1.5** what benefits (including savings) are expected to be achieved from services outsourced for the first time in 1999-2000; and
- 1.6** what strategies have been adopted to introduce increased contestability in services delivered by the Department? (In this context, the strategies may include benchmarking, establishment of purchaser/provider arrangements, outsourcing or other strategies.)

2. *Departmental Issues*

List up to five significant issues, which have determined the Department's forward estimates for the 1999-2000 financial year. Please describe how the Department will address these issues in 1999-2000.

(In this context, a significant issue should not include the historical basis of the estimate ie. the existing funding for output, but may be any other matter or strategy affecting the Department, whether it arises from the external environment, or internally, or as a result of new policy or legislation.)

3. *Output and Performance Management*

- 3.1** What strategies has the Department implemented to ensure that its resources are sufficiently focused towards achieving its outputs?
- 3.2** What arrangements are in place to ensure the performance measures established for the Department's output groups are clearly linked to the Key Government Objectives?
- 3.3** What new performance measures has the Department introduced to evaluate the efficiency and effectiveness of the delivery of outputs for the 1999-2000 financial year?
- 3.4** How is the Department developing and improving its capacity to collect, collate and use output and performance measurement information?
- 3.5** What process has been undertaken by the Department to ensure that performance measures are relevant and targets are appropriate?

- 3.6** For each output group, please indicate which of the output/performance measures shown in Budget Paper No 3 are considered by the Department to be the **key** measures of the Department's performance.
- 3.7** How often is the Department measuring performance against established performance measures?
- 3.8** For each output group, please provide a brief explanation of the reasons for variations (greater than 10 per cent) between the output targets established for 1998-99 and 1999-2000.
- 3.9** Where the Department has adopted performance-benchmarking practices, please provide the following:
- (a) a list of the benchmarks;
 - (b) an explanation of how they have been developed;
 - (c) an explanation for variations between departmental performance against those benchmarks; and
 - (d) has performance been compared against relevant benchmarks established by the Industry Commission; and
 - (e) if yes, please provide details of the comparative performance.
- 3.10** Where benchmarks have not been developed, please outline the progress in identifying benchmarks and provide an indication when they will be available.

4. Financial Information

4.1 Departmental Revenue

Please provide the following information:

- (a) a brief description of all revenue sources within the Department;
- (b) fund(s) to which monies received are paid;

- (c) succinct explanations for all variances greater than 10 per cent between the 1998-99 and 1999-2000 revenue estimates;
- (d) the Department's receipt retention arrangements;
- (e) what percentage of total non taxation regulatory fee receipts are represented under receipts retention arrangements;
- (f) if less than 100 per cent, please explain why;
- (g) what percentage of receipts from disposal of capital assets are represented under receipts retention arrangements; and
- (h) if less than 100 per cent, please explain why.

4.2 Departmental Expenditure

Please provide the following information:

- (a) a break down of the composition of 1998-99 and 1999-2000 estimated "Other" operating expenses; and
- (b) succinct explanation for each variance greater than 10 per cent between the 1998-99 and 1999-2000 expenditure estimates.

4.3 Departmental Assets and Liabilities

Please provide a succinct explanation for each variance greater than 10 per cent between the 1998-99 and 1999-2000 estimated balances.

4.4 Departmental Capital Works

- (a) How does the expenditure for capital works relate to the Department's strategies and budget outcomes?
- (b) Please indicate which capital works projects are intended to maintain the Department's existing service delivery capacity and which are intended to increase the service delivery capacity.

4.5 Capital Assets Charge

Please provide details of how the Department expects to manage its assets to minimise the amount of capital assets charge payable.

5. *Human Resources*

- 5.1** Please provide details of staffing at 30 June 1998 (actual) and 30 June 1999 (estimate) by output group (if available) or by division, and by classification level.
- 5.2** What significant human resource issues are impacting on the Department's achievement of its business objectives?

6. *Productivity Achievements*

- 6.1** Please provide details of expected productivity gains, irrespective of the source, to be achieved during 1998-99 and 1999-2000.
- 6.2** How have the productivity gains been reflected in the 1999-2000 Budget Estimates?

7. *Implementation of the Management Reform Program*

- 7.1** To what extent is accrual accounting information utilised for internal decision making by groups other than the financial accounting group? How is this achieved?
- 7.2** What strategies does the Department have in place to ensure managers at all levels will be able to successfully implement the management reform program?

Contact Details

Department:

Contact Officer:
Position:
Contact Nos.: Telephone:
Fax:
Email:

Please return this questionnaire to:

Executive Officer
Public Accounts and Estimates Committee
Secretariat
Level 8, 35 Spring Street
MELBOURNE, VIC.. 3000

Telephone: 9651 3551
Fax: 9651 3552
Email: paec@parliament.vic.gov.au

APPENDIX 2 ACRONYMS AND ABBREVIATIONS

GBEs	Government Business Enterprises
Aluovic	Aluminium Smelters of Victoria
GST	Goods and Services Tax
MDBC	Murray-Darling Basin Commission
ICC	Interim Capital Charge
CAC	Capital Assets Charge
GFC	Government Finance Charge
TAFE	Technical and Further Education
VAIP	Victorian Accelerated Infrastructure Program
EGMs	Electronic Gaming Machines
ATMs	Automatic Teller Machines
CSF	Curriculum Standards Framework
MYRAD	Middle Years Research and Development
IT	Information Technology
LAP	Learning Assessment Program
SAC	Statement of Accounting Concepts
AHCA	Australian Health Care Agreement
CPI	Consumer Price Index
SET	Science Engineering and Technology
COAG	Council of Australian Governments
CSF	Community Support Fund

APPENDIX 3 LIST OF PERSONS AND DEPARTMENTS PROVIDING SUBMISSIONS/EVIDENCE

List of Persons and Departments Providing Submissions/Evidence

Evidence

Department of Treasury and Finance – 20 May 1999

Hon. A. Stockdale, Treasurer; Hon. R. Hallam, Minister for Finance; Mr I. Little, Secretary, Department of Treasury and Finance; Mr G. Hehir, Deputy Secretary, Budget and Financial Management Division, Department of Treasury and Finance; Mr B. Lahey, Director of Gaming and Betting, Victorian Casino and Gaming Authority; and Mr A. Lindberg, Chief Executive, Victorian Workcover Authority.

Department of Natural Resources and Environment – 4 June 1999

Hon. P. McNamara, Minister for Agriculture and Resources; Hon. M. Tehan, Minister for Conservation and Land Management; Mr M. Taylor, Secretary; Mr R. Rawson, Deputy Secretary, Operations; Mr T. Healey, Deputy Secretary, Policy; Dr B. Robinson, Chairman, Environment Protection Authority; Mr A. Young, Chief Finance Officer; Mr S. Mather, Director, Human Resources; and Ms J. Pettitt, Director, Human Resources, Department of Natural Resources and Environment.

Department of State Development – Sport and Rural Development – 8 June 1999

Hon. T. Reynolds, Minister for Sport and Minister for Rural Development; Mr R. Hart, Secretary, Department of State Development; Mr R. Kennedy, Executive Director, Sport, Recreation and Racing; Mr D. Roberts, General Manager, Rural Development; Mr M. Turner, Ministerial Adviser, Rural Development; and Ms S. Ferry, Ministerial Adviser, Sport.

Department of Premier and Cabinet – 10 June 1999

Mr. W. Scales, Secretary; Mr G. Hyams, First Assistant Secretary, Office of State Administration; and Ms L. Alway, Director, Arts Victoria, Department of Premier and Cabinet.

Department of Human Services – Health – 15 June 1999

Hon. R. I. Knowles, Minister for Health and Minister for Aged Care; Mr B. Nicholls, Director, Corporate Strategy; Dr C. Brook, Director, Acute Health; Mr A. Clayton, Director, Aged, Community and Mental Health; and Mr J. Hayes, Assistant Director, Financial and Administrative Services, Department of Human Services.

Department of Education – 17 June 1999

Hon. P. Gude, Minister for Education; Mr P. Allen, Secretary; Mr J. Pascoe, Director of Schools; Mr D. Cain, Acting Deputy Secretary, Strategic Planning and Administrative Services; Ms R. MacLeod, Chief Finance Officer; and Mr B. Ciullo, General Manager, Facilities, Department of Education.

Parliament – 27 July 1999

Mr A Bray, Clerk of the Parliaments, Clerk, Legislative Council; Mr R Purdy, Clerk, Legislative Assembly; Mr B Davidson, Parliamentary Librarian; Ms C Williams, Chief Reporter, Hansard; Ms C Haydon, Chief Executive Officer, Department of Parliamentary Services.

Department of State Development – Small Business and Tourism - 3 August 1999

Hon. L. Asher, Minister for Small Business and Minister for Tourism; Mr M. Brennan, Executive Director, Small Business and Regulation Reform; and Mr J. Floyd, Chief Executive Officer, Tourism Victoria, Department of State Development.

Department of Infrastructure – Transport – 10 August 1999

Hon. R. Cooper, Minister for Transport; Mr B. McDonald, Chief Finance Officer, Corporate Finance Division; and Mr J. Taylor,

Director of Public Transport, Public Transport Division,
Department of Infrastructure.

Submissions

The following Departments and agencies responded to the
Committee's annual estimates questionnaire:

Education;
Environment Protection Authority;
Human Services;
Infrastructure;
Justice;
Natural Resources and Environment;
Parliamentary Departments;
Premier and Cabinet;
State Development;
Treasury and Finance; and
Victorian Auditor-General's Office.

In addition some departments provided further information on
request by the Committee.

Report on the 1999-2000 Budget Estimates

**APPENDIX 4 GOVERNMENT RESPONSE TO PAEC
REPORT NO. 27 ON THE 1998-99
BUDGET ESTIMATES**

Response to Committee's previous recommendations

Report on the 1999-2000 Budget Estimates