Report on the 2002-03 Budget Outcomes
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PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE
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Hon. B Baxter, MLC
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Mr L Donnellan, MP
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The Public Accounts and Estimates Committee is a joint parliamentary committee constituted under the *Parliamentary Committees Act* 1968, as amended.

As a result of recent amendments to the *Parliamentary Committees Act*, the Committee now comprises nine Members of Parliament drawn from both Houses of Parliament and all political parties.

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; and

(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 also has a consultative role in determining the objectives of performance audits and identifying any particular issues that need to be addressed during these audits.
## Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Accountability</td>
<td>Responsibility of an individual or agency for performance.</td>
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<tr>
<td>Additions to the net asset base</td>
<td>An appropriation which provides authority to increase the net capital base of a Department’s statement of financial position.</td>
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<tr>
<td>Administered items</td>
<td>Those resources which a Department administers on behalf of the State, and over which it cannot exercise direct control.</td>
</tr>
<tr>
<td>Agency</td>
<td>An accounting identity designed to define the legal bounds of the operation of a business unit. In the general government sector, those units which source 50 per cent or more of funding through appropriations and which are directly accountable through ministers to Parliament</td>
</tr>
<tr>
<td>Amortization</td>
<td>Used interchangeably with the term ‘depreciation’. However, depreciation is correctly used in relation to non-current assets that have a physical substance, while amortization describes intangible assets.</td>
</tr>
<tr>
<td>Annual appropriation</td>
<td>The appropriations to Departments and the Parliament contained in the Appropriation Act and Appropriation (Parliament) Act. These appropriations lapse at the end of each financial year.</td>
</tr>
<tr>
<td>Annotated receipts</td>
<td>Under the provisions of the <em>Financial Management Act</em> 1994 and the annual Appropriation Act, the authority limit for certain departmental appropriation items can be increased by an amount equal to specified departmental receipts under the terms and conditions agreed between the responsible Minister and the Treasurer. These receipts are known as annotated receipts.</td>
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Assets
Service potential or future economic benefits controlled by an entity (e.g. a Department) as a result of past transactions or other past events.

Assets may be physical (e.g. plant, equipment or buildings) or non-physical (e.g. financial investments).

Benchmark
A measurement or standard that serves as a point of reference by which process performance is measured.

Benchmarking
A structured approach for identifying best practices from industry and government and comparing and adopting them to the entity’s operations.

Budget sector
Comprises entities within the public sector which source 50 per cent or more of funding through appropriations and which are directly accountable through Ministers to Parliament. It includes all transactions passing through the Public Account, whether recorded in the Consolidated Fund, or the Trust Fund.

The Budget sector is identical to the General Government sector in the 2003-04 Victorian Budget Papers.

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.

Capitalisation
Recognising the value of an item as an asset rather than as an expense.

Central agencies
The Department of Treasury and Finance, and the Department of Premier and Cabinet.
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<td>Consolidated Fund</td>
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<td>Depreciation</td>
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<td>Employee benefits</td>
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<td>Ex-ante reporting</td>
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<td>Ex-post reporting</td>
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<td>Finance lease</td>
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<td>Financial report</td>
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<td>Term</td>
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<td>-----------------------------------------</td>
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<tr>
<td>Franchising</td>
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<td>General Government sector</td>
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<td>General purpose payments or grants</td>
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<tr>
<td>Government business enterprise</td>
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<td>Integrated Management Cycle</td>
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<td>Liabilities</td>
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<tr>
<td>Machinery of government changes</td>
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<td><strong>Glossary</strong></td>
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<tr>
<td><strong>Materiality</strong></td>
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<td><strong>Non-budget sector</strong></td>
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<td><strong>Non-current assets</strong></td>
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<td><strong>Non-current liabilities</strong></td>
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<td><strong>Net assets</strong></td>
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<td><strong>Ordinary activities</strong></td>
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<td><strong>Outcomes</strong></td>
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<td><strong>Output</strong></td>
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<td><strong>Output group</strong></td>
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<td><strong>Parliamentary authority</strong></td>
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Payments on behalf of the State
An appropriation which provides authority to a Department to on-pass payments of the State over which the Department has no direct control with respect to the quantity of outputs delivered.

Performance measures
Quantity, quality, timeliness and cost indicators used to describe the delivery of government-funded outputs.

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
Comprises the Consolidated Fund and the Trust Fund.

Public Sector Comparator
The Public Sector Comparator estimates the hypothetical risk-adjusted cost if a project were to be financed, owned and implemented by government.

Revenue certification
The formal acceptance by the Minister for Finance of departmental claims for appropriation revenue, based upon the provision of agreed outputs in terms of quantity, quality, timeliness and cost.

Revaluation
The act of recognising a reassessment of values of non-current assets at a particular date.

Special appropriation
A standing authority that remains in force until amended or repealed by Parliament, for specific once-off or ongoing payments which need to be made independently of the Government's annual budget priorities.
### Glossary

<table>
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<tr>
<th>Term</th>
<th>Definition</th>
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<tr>
<td>Specific purpose grants</td>
<td>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.</td>
</tr>
<tr>
<td>State Administration Unit</td>
<td>An account established within the Consolidated Fund to meet the accounting and accountability needs associated with the operation of the accrual-based output management arrangements. These include the recording of the Treasurer’s application of appropriations and the departmental draw-down of these funds from the Consolidated Fund.</td>
</tr>
<tr>
<td>Statement of cash flows</td>
<td>A statement that provides information on the cash inflows and outflows as they relate to operating, investing and financing activities of an entity.</td>
</tr>
<tr>
<td>Statement of financial position</td>
<td>A statement that provides information on the entity’s assets and liabilities, and also reflects the net worth for the reporting period.</td>
</tr>
<tr>
<td>Statement of financial performance</td>
<td>A statement providing information for the reporting period on the revenue and expenses, and the surplus or deficit, of an entity.</td>
</tr>
<tr>
<td>Supplies and services</td>
<td>This encompasses the day-to-day running costs incurred in the normal operations of government entities, but specifically excluding the cost of employee benefits, superannuation, depreciation, amortisation, interest and other finance costs, grants and transfer payments, and other expenses.</td>
</tr>
<tr>
<td>Treasurer’s Advance</td>
<td>An appropriation to the Treasurer, included in the annual Appropriation Act, to meet urgent expenditure claims that were unforeseen at the time of the Budget.</td>
</tr>
</tbody>
</table>
Trust Fund

The Trust Fund is established to account for the receipt and disbursement of moneys not forming part of the Consolidated Fund and therefore not subject to parliamentary appropriation. The Trust Fund comprises various trust specific purpose accounts established under separate legislation or at the discretion of the Minister for Finance under the Financial Management Act 1994. The Trust Fund together with the Consolidated Fund, form the Public Account.

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 superannuation scheme’s members have accrued during past services which are not covered by fund assets. Unfunded superannuation liabilities arise when superannuation costs are not contributed as the members’ benefits accrue.

Write-off

In relation to amounts receivable, recognition that an amount receivable is uncollectible.
CHAIR’S INTRODUCTION

In order to provide services to the community, the Victorian Government receives and spends tens of billions of dollars each year. If you compare spending by the State Government to that by publicly listed companies, the Government’s spending would be at least equal to that of most large companies in Australia.

In the private sector, investors and boards of directors evaluate overall performance based on a broad array of information. In the public sector, one of the important mechanisms used by the Parliament to hold the Government to account is through the detailed scrutiny work undertaken by the Public Accounts and Estimates Committee.

The Committee’s review of government expenditure for each financial year commences with the estimates hearings in May and June and concludes with the presentation of this report to the Parliament on the intended and actual outcomes achieved by Departments and Agencies. This report contains information about many of the hundreds of programs which we have scrutinised during our review.

I am pleased that the Government has responded positively to most of the recommendations contained in the Committee’s report on the 2000-2001 Budget Outcomes, however there is still room for further improvement. While the Parliament currently receives reasonably good financial information – especially about the outputs purchased by the Government and the financial performance of its Agencies – the Committee considers that the community should receive comprehensive information about the Government’s desired outcomes and the extent to which those outcomes are being achieved. Many of the 106 recommendations contained in this report are aimed at addressing these issues.

The Committee stresses it is not looking for substantially more information, but a better integration of financial and performance information into a format that allows for analysis and trends to be discernible. We will be exploring this matter in more detail in our report on the review of the Auditor-General’s Report on parliamentary control and management of appropriations, which will be tabled later this year.

The preparation of this report has taken longer to complete than the Committee expected. One of the contributing factors is the complexity of
some of the matters considered during this review. I thank those Ministers and government officials who provided information and explanations the Committee needed to produce this report. The Committee is conscious of the need to avoid requiring Departments and Agencies to produce costly information solely for the purposes of discharging external accountability requirements. However, we believe that the information sought by the Committee for accountability purposes is also information that the Executive and its Agencies need for their own good governance and effective management.

I acknowledge the outstanding work of the PAEC secretariat, which has assisted with the preparation of this report.

I also thank all Members of the Committee for the constructive time and effort spent on the review of the Budget Outcomes for 2002-2003.

I commend our report for your consideration.

Hon. Christine Campbell, MP
Chair
Chapter 1: Introduction and Responses to Previous Budget Outcomes Report

The Committee’s review of the Budget outcomes is intended to enhance the accountability of Government Departments and Agencies and provide the Parliament and the community with more meaningful information about the results achieved in 2002-03 compared with the intended results.

In November 2003 the Public Accounts and Estimates Committee wrote to the Victorian Premier, the senior Ministers for each Department and the Presiding Officers of the Parliament, seeking a response to questions about the outcomes of departmental activities during 2002-03. Although responses were requested by 19 December 2003, only the Minister for Agriculture, on behalf of the Department of Primary Industries, met that deadline. This had a significant impact on the Committee’s work program and has delayed the tabling of this report.

The Committee considers that its report on the Budget outcomes is a critical component of the accountability framework, as it provides detailed information to the Parliament on the Government’s financial and performance information for the previous financial year. The Committee believes that the earlier the report is tabled, the more it can assist in deliberations on the forthcoming Budget.

This report is based on an analysis of the Government’s 2002-03 actual budget (consisting of $26,394.6 million expenditure and $26,630.5 million revenue), and information contained in a range of documents. These documents include the annual reports and corporate and business plans of all Departments and some portfolio Agencies; the responses to the Committee’s questionnaire; the Auditor-General’s Report on the Finances of the State for 2002-03 and other relevant reports; the Budget Papers for 2002-03; and the Government’s Statement of Budget Outcomes for 2002-03.

Following its review of the 2000-01 Budget outcomes, the Committee made 49 recommendations on annual reporting, financial performance, governance processes and the monitoring of some key activities. The Government and the Auditor-General accepted 24 recommendations, accepted thirteen in part, accepted five in principle and rejected seven.
Report on the 2002-03 Budget Outcomes

The Committee has summarised in Chapter 1 the Government’s response to its key recommendations relating to the Budget Outcomes for 2000–01.

Unfortunately, it did not prove possible for the Committee to report on the 2001-02 Budget outcomes due to the affect on the Committee’s work program of the 2002 State election.

Chapter 2: 2002-03 Budget Overview

The Budget outcome for 2002–03 was a surplus of $235.9 million, down $285.9 million from the Budget estimates. State taxation revenue was a significant revenue source in 2002–03, but was surpassed by the higher than expected expenditure growth of 6.6 per cent against the Budget. While the budget sector returned a surplus in 2002–03, continued vigilance is necessary to ensure the Government can meet its short term financial objective to maintain an operating surplus of at least $100 million.

Total actual revenue was $26,630.5 million, or $1,348.8 million higher than the Budget estimates. The increase in actual revenue was a result of stronger than forecast taxation revenue due mainly to sustained growth in house prices, increased funding from the Commonwealth Government for health and education initiatives, and a range of one-off revenues.

Specific details are:

• taxation revenue was $9,350.4 million, up $547.7 million on the Budget estimate. Taxes on financial and capital transactions were $584.6 million higher than budgeted, due largely to stronger than expected growth in conveyancing and mortgage duty revenues, due to the continuing growth in housing activities;

• investment revenue was $1,205.7 million, up $144.1 million on the Budget estimate. The increase in investment revenue was due predominantly to higher than expected dividends, income tax and rate equivalent revenue received from Government Business Enterprises. This revenue was largely attributed to continued strong land development activity;

• grants revenue was $12,103.2 million, up $349.6 million on the Budget estimate. The increase reflected mainly the rise in
specific purpose grants received from the Commonwealth Government for educational and health initiatives; and

- other revenue (comprising sales of goods and services, loss on the disposal of physical assets, assets received free of charge, capital asset charge revenue and other revenue) was $3,403.7 million, up $293.8 million on the Budget estimate. The movement in this revenue category was due mainly to various one-off revenues received: from the developers of the Spencer Street Station redevelopment and the failed transport franchisee National Express Group ($135 million); asset transfers from the unwinding of the Latrobe Regional Hospital; and various non-recurring asset write-offs, mainly associated with the City Link project.

Total actual expenditure was $26,394.6 million, or $1,634.6 million higher than the Budget estimate. This was attributed mainly to public sector cost increases and superannuation expenses. Significant Budget initiatives included funding for bushfire suppression and recovery, and drought assistance initiatives.

Details of expenditures are:

- employee benefits expenses were $9,542.9 million up $501.4 million higher than the Budget estimate. The increase was due mainly to additional expenditure associated with increased staffing, improved service delivery in the health and education sectors and enterprise bargaining agreements;

- superannuation expense was $2,612.2 million, up $899.1 million on the Budget estimate. The increase was attributed mainly to lower investment returns on superannuation fund assets as a result of subdued equity markets in 2002–03; and

- other expenses (comprising depreciation and amortisation, borrowing costs, grants and transfer payments, supplies and services, and other expenses) were $14,239.5 million, up $234.1 million on the Budget estimate. The increase in expenditure was due mainly to the funding for the bushfire suppression and recovery initiative ($136 million), drought assistance initiatives ($77 million), the settlement of the Seal Rocks project development dispute, the review of the accounting procedures for the whole of government leased motor vehicle fleet ($42 million) and various one-off
expenditure associated with new accounting standards and pronouncements in 2002–03.

Budget sector assets were $48,742.4 million, or $1,072.1 million higher than adjusted Budget estimates. This increase was attributed mainly as a result of higher valuations of land and buildings of the Department of Education and Training and public hospitals, and cultural assets.

Budget sector liabilities were $25,134.5 million, or $350.2 million higher than budgeted. The increase in liabilities was associated mainly with an overpayment of a general purpose grant from the Commonwealth Government.

The unfunded superannuation liability was $13,437.2 million, compared to the budgeted balance of $13,338 million – a marginal increase of $99.2 million. The increase in the superannuation liability was a result of lower investment market returns and changes to actuarial assumptions compared with forecasts used in the Budget estimates. It was partially offset by the early payment of next year’s (2003–04) annual superannuation contribution of $750 million, on 30 June 2003.

The 2002–03 Budget was prepared using various economic projections which were highlighted in the Budget Papers. A report on the annual economic activity of the State of Victoria, and which also comments on the accuracy of these Budget economic projections would improve the transparency of the Government’s Budget information.

The Government’s report on its progress against the Growing Victoria Together framework should be expanded to include the priorities, strategies and initiatives implemented to achieve the Growing Victoria Together vision and its desired outcomes.

Since the 2000–01 Budget, funding that had been allocated to the Growing Victoria infrastructure reserve totalled $1,575 million. A report on the Growing Victoria Infrastructure Reserve projects with details of annual progress and a comparison of expenditure against budgeted funding would improve the transparency and accountability of monies spent on these projects.

The revised reporting requirements of the Standing Directions of the Minister for Finance – which apply from 1 July 2003 – are unclear in certain reporting requirements, in particular the reporting of output performance measures (specifically on the reporting of output cost) and
the Budget Portfolio Outcomes Statement. The Standing Directions of the Minister for Finance did not specify the requirement to report on output costs and some Departments had chosen not to report their performance against output costs in their annual reports. Similarly, some Departments did not prepare a Budget Portfolio Outcomes Statement for 2002-03.

In 2002–03, the Departments received approval to drawdown from the Advance to Treasurer to meet urgent claims, a total of $614.1 million. Furthermore, a total of $113.7 million in temporary advances were approved to Departments under section 35 of the Financial Management Act 1994. In addition, the Department of Human Services received unbudgeted funding of $180.8 million under section 3(2) of the Appropriation Act, to meet the cost of variations to salaries and related costs of health and community service workers.

Stress related claims cost in 2002–03 totalled $14.7 million. The Departments that reported significant stress related claims costs were the Department of Justice which reported a total of $8.6 million, mainly attributed to stress related claims of the Victoria Police, and the Department of Education and Training with a total of $3.7 million. The WorkCover premium paid by Victoria Police and the Department of Education and Training were also the highest among the Departments.

The total of WorkCover premiums paid in 2002–03 was around $160 million. The Agency and Department that paid the highest WorkCover premium was Victoria Police at $60.8 million and the Department of Education and Training which paid $43 million.

More than 80 per cent of executive officers in the majority of Departments received performance bonuses. In some Departments, all executive officers within a specific band were paid performance bonuses. The Committee stresses the importance of a consistent application of the Government’s performance bonus policy, which states that bonuses were only to be paid where performance was exceptional or substantially above the performance criteria.

**Chapter 3: Parliamentary Departments**

In 2002-03 the total Budget for the Parliamentary Departments was $93 million. Actual expenditure for the year was $91.6 million, $1.4 million or 1.5 per cent below the Budget. Actual expenditure by the Parliamentary Departments for 2002–03 was $89.7 million, approximately $4.3 million less than the revised Budget. The most significant underspending of the
revised Budget was in the Departments of the Legislative Council ($700,000) and the Legislative Assembly ($2.5 million).

The Parliamentary Departments have introduced new performance measures, in recognition that the Departments had no control over many of the existing measures because they were dependent on the Government’s legislative program.

The Committee believes that performance measures in the Parliamentary Departments’ corporate plan should measure quantity, quality, timeliness and cost, and not be stated as desired outcomes.

The decision of some Parliamentary Departments to report on different performance measures in their annual reports to those recorded in the Budget Papers — on the grounds that they are more relevant — reflects on the quality of information that was initially provided and impacts on the level of transparency. The Parliamentary Departments are encouraged to consider the suitability of the performance measures used in their annual reports and the need for consistency with those recorded in the Budget Papers.

The Committee acknowledges that the State election, held in late November 2002, resulted in significant changes to the composition of the Parliament and this had an impact on the capacity of the Parliamentary Departments to deliver on several of their performance targets.

The significant problems associated with the introduction of the Parlynet 2002 Project also affected the achievement of some objectives. The Committee was assured that these matters will be addressed in 2003-04.

The Presiding Officers are urged to review and rectify the fundamental weaknesses in structure, management and risk strategies which the Auditor-General identified in his report on Parliament’s information technology upgrade. In particular, the Committee supports a request for the Auditor-General to undertake a follow-up review of the Parlynet 2002 Project to ensure that the problems have been addressed.

Chapter 4: Victorian Auditor-General’s Office

The Victorian Auditor-General’s Office output structure in 2002–03 comprised two output groups with a combined Budget of $24 million. Actual expenditure in 2002-03 was $23.45 million, which was $560,000 lower than anticipated.
The Auditor-General’s Office achieved or exceeded most of its performance targets in 2002-03. Some of the significant variances from performance targets included:

- 96 per cent of audit opinions being issued within statutory deadlines, compared with a target of 100 per cent. The variation was due mainly to some significant accounting and disclosure issues that could not be resolved within the timeframe; and

- 74 per cent of management letters to Agencies being issued within the established timeframe, compared with the performance target of 100 per cent. This variation was due to the extensive consultation that was required for some complex issues, which delayed the letters.

The Committee believes several vaguely termed qualitative performance measures used by the business units of the Auditor-General’s Office could be replaced by targets that are expressed in more specific terms.

Chapter 5: Department of Education and Training

In 2002-03, the total Budget for the Department of Education and Training and its agencies, adjusted for the machinery of government changes, was $6,174.3 million. Actual expenditure for the year was $6,452.6 million, $278.3 million or 4.5 per cent over Budget.

The Department’s output group structure comprised three output groups with total expenditure of $6,088.4 million against a Budget $5,855.3 million. Output cost variations were most significant in the School Education output group, for which actual costs exceeded Budget estimates by $235.2 million. The key cost drivers were salary increases negotiated during the year, the appointment of additional staff and enrolment growth in schools. The 2002-03 Budget underestimated the costs of education services that were required to be provided during 2002-03. The Committee recommends a review of the schools’ budget development and management framework, to more accurately forecast Budget estimates for this sector.

Treasurer’s advances of $155.7 million were provided to the Department to meet additional costs associated with salary increases for staff and teachers, increased demand and enrolment growth in government and non-government schools, and damage costs for schools affected by fires in 2002-03.
Student numbers in government and non-government schools increased by 4,295 between February 2002 and February 2003, with independent schools registering the highest increase (3.5 per cent). Student numbers increased by 0.3 per cent in government schools, while falling by 0.5 per cent in Catholic schools.

At 30 June 2003, the Department employed 49,993.2 equivalent full time staff - an increase of 934 equivalent full time staff from the previous year. Employee expenses amounted to $3.9 billion and exceeded the allocated Budget of $3.7 billion. Employee costs included bonus payments to executive officers of $662,248. WorkCover premium paid by the Department and its Agencies, that is, TAFE institutes, the Victorian Curriculum Assessment Authority and the Centre for Adult Education, was $50.1 million.

A number of factors - including workload issues and dissatisfaction with the complaints investigations process - resulted in a 37 per cent increase in the Department’s stress related claims from those in the previous year. The Committee believes there should be a systematic assessment of the underlying factors contributing to the increase in stress related claims, given the wide ranging implications of workplace stress.

The Department processed over $1.5 billion in trust fund revenue and expenditure in 2002-03. Of this amount, $1.1 billion related to Commonwealth grants which the Department received for on-passing to non-government schools.

At 30 June 2003, the Department and its agencies controlled assets of $10,248.2 million and liabilities of $1,225.6 million. The net asset position of the Department exceeded the Budget estimate by $993.8 million due to an upward revaluation of property, plant and equipment.

Expenditure on capital projects (including expenditure for modernisation of schools, which was funded out of the Growing Victoria Infrastructure Reserve) amounted to $185.1 million. The asset investment allocation for the same period was $194.1 million. This amount was not fully expended because planning processes were delayed for certain capital projects.

The Department achieved 60 per cent of its published performance targets in 2002-03. Where it did not achieve targets, actual outcomes varied by less than 5 per cent in most cases. Some of the more significant
variances from performance targets related to the following performance measures:

- **schools with 1:5 or better computer-student ratio**, with the actual ratio of 78.5 per cent not meeting the targeted ratio of 95 per cent for primary schools. Similarly, secondary schools recorded a ratio of 76.2 per cent against a 95 per cent target;

- **new arrivals students receiving intensive or targeted support**, with 1,044 students exceeding the target of 825;

- **Government school students with a managed individual pathways plan**, with 84 per cent of students exceeding the target of 60 per cent; and

- **School based apprentices/trainees in training**, with the target number of 1,550 exceeding the actual outcomes by 454.

The Committee noted some improvements in performance outcomes from the previous year including:

- a reduction of average class sizes in prep-year 2 (from 22.4 to 21.8 students) and years 3-6 (from 25.2 to 24.8 students);

- an improvement in the teacher-student ratio from 1:16.6 to 1:16.5 for primary education, and 1:12.5 to 1:12.4 for junior secondary education;

- improvements in years 10-12 retention rates from 76.8 per cent to 77.5 per cent; and

- an increase in annual student contact hours in vocational education and training (VET) in VCE programs from 6.24 to 6.77 hours.

Funding of $34.6 million was allocated over four years to support the implementation of school-based numeracy programs in regions. The Committee noted that the numeracy levels for year 3 Victorian students exceeded the national average numeracy level in 2001.

Annual funding of $52 million was provided to support early years literacy coordination and the implementation of one to one intervention programs (such as Reading Recovery), for students in year 1. However, the Committee is concerned that reading proficiency targets established
by the Department for 2002-03 were not achieved at the prep and year 1 levels. Declining trends in the reading performance of prep and year 1 students were also apparent, compared with outcomes for the previous year. The Committee believes the Department needs to examine the underlying reasons for these declining trends in reading proficiency.

The Government is committed to reducing class sizes for years prep to year 2 (P-2) to an average of 21 students by 2003. According to the Department, this target was achieved in May 2003, when the average P-2 class size was 21.8 students.

Under the Restart Program – which is aimed at improving literacy achievements for targeted year 7 students at the greatest risk of leaving school – the Department employed 97.1 teachers in 2002-03. The Department reported an improvement in literacy levels for 72 per cent of participating year 7 students, as a result of this initiative. Performance outcomes were marginally lower than the established target of 75 per cent.

Under the Access to Excellence initiative, the 2002-03 Budget allocated $81.6 million over four years, ($11.4 million in 2002-03) to fund 300 additional teacher appointments in targeted schools where Year 7-10 students are not achieving satisfactory levels in literacy or numeracy, or attendance or retention. The Department indicated that 217 teachers were employed during 2002-03 with some schools utilising excess teacher capacity to fill positions.

While no performance measures and targets were published for Koori education initiatives in 2002-03, the Committee is pleased that performance measures have been developed for inclusion in the Department’s 2003-04 annual report. The Committee noted that the 2003-04 performance measures and targets relate to primary schooling only, and has suggested that performance indicators be developed to separately identify literacy, numeracy, attendance and retention rates at secondary and higher school levels.

In 2002, 67 per cent of students successfully completed the Victorian Certificate of Applied Learning (VCAL) which was trialled at 22 sites and involved a total of 546 students. According to the Department’s performance information, 50 per cent of students are expected to successfully complete VCAL in 2003-04. The Committee believes the Department needs to re-evaluate the basis for the low completion rate of
the VCAL in 2003-04, in order to develop strategies that would improve pass rates and employment prospects for students.

The level of satisfaction of TAFE graduates with the quality of training provided by TAFE institutes decreased from 65 per cent in 2001-02 to 60 per cent in 2002-03. The Committee has recommended the Department of Education and Training investigate the reasons for the decline in student satisfaction levels.

The Department of Education and Training endorsed all but one of the recommendations of the review of university governance which was finalised in May 2003.

A review of governance arrangements in TAFE institutes was also completed in May 2003. The recommendations of the review are being considered by the Department.

Chapter 6: Department of Human Services

In 2002-03, the total Budget for the Department of Human Services and its agencies, adjusted for the machinery of government changes, was $8,905.5 million. Actual expenditure for the year was $9,438.8 million, $533.3 million or 6 per cent over Budget.

The output structure of the Department of Human Services in 2002-03 comprised 11 output groups with an actual expenditure of $8,779.6 million, which was 2.8 per cent higher than expected. Most of the increase was due to an additional $252 million allocated to hospital services, which experienced an 8.9 per cent increase in demand.

In 2002-03, expenditure on the Department’s asset investment program was $347 million, or around 3 per cent less than forecast. The program’s largest single project is the $350 million for the Austin and Repatriation Medical Centre redevelopment and the relocation of the Mercy Hospital for Women.

The Department’s employee related expenses were $4,466 million in 2002-03, an increase of 9.6 per cent compared with the previous year. The number of staff employed by the Department rose by almost 500, with most of the additional employees based in the head office (134 employees) or the Eastern Metropolitan Region (109 employees).
The Department achieved most of its performance targets across its 58 outputs in 2002-03. Some of the significant variances from performance targets included:

- higher than anticipated demand on hospital emergency departments, with the number of presentations being 11.8 per cent higher than forecast; and

- more timely contact with sub acute care patients, with 87 per cent of patients being contacted within three days of referral, compared with a target of 70 per cent.

Despite requirements to disclose both actual and targeted performance in its annual report, the Department included only estimates for 30 performance measures for four output groups in its 2002-03 annual report. While the Department relies on a large number of contracted agencies to provide performance information relating to certain outputs, the Committee considers it is unacceptable that the Department could not provide information on actual performance, nine months after the end of the financial year.

The 2002-03 Budget allocated an additional $464 million over four years to the Hospital Demand Management Strategy. Some of the strategy’s key impacts on health services in 2002-03 included:

- a 29 per cent reduction in hospital bypass;

- an increase in the proportion of patients admitted within 12 hours, from 85 per cent in 2001-02 to 87 per cent; and

- a 6.4 per cent increase in patients treated.

During the year the Department of Human Services undertook a range of strategies to address the public hospitals’ financial viability concerns including implementing a sustainability strategy to address the immediate concerns of major metropolitan and rural hospitals and establishing a central purchasing agency to achieve cost savings on medical, pharmaceutical and prosthetic supplies.

The Department did not disclose in its 2002-03 annual report details of a consultancy which was commissioned by the Department of Treasury and Finance and cost the Department of Human Services more than $100,000, despite directions by the Minister for Finance under the
Financial Management Act that require consultancy arrangements exceeding $100,000 to be disclosed in departmental annual reports.

The indexation arrangements included in service agreements with community organisations are lower than the forecast increase in wages in the Victorian economy. The arrangements may result in a cut in real funding to services if community organisations cannot find productivity improvements in the short term. The Committee is concerned about this situation.

**Chapter 7: Department of Infrastructure**

In 2002-03, the total Budget for the Department of Infrastructure and its agencies, adjusted for the machinery of government changes, was $2,829.9 million. Actual expenditure for the year was $2,615.3 million, $214.6 million or 7.6 per cent under Budget.

The eight output groups in the Department had actual expenditure of $2,667.1 million, which was $34.4 million (1.3 per cent) above the budget estimate.

In 2002-03, expenditure on the Department of Infrastructure’s asset investment program was $408 million or 32 per cent lower than expected. The program includes the following initiatives announced in the 2002-03 Budget – the redevelopment of Spencer Street Station, Craigieburn rail electrification and an upgrade of the Warrnambool rail line.

The Department of Infrastructure received $207 million in 2002-03 from the Consolidated Fund, ahead of service delivery. The amount was subsequently transferred into the Better Roads Victoria Trust ($151 million) and the Public Transport Fund ($56 million). The affect of these transactions was to increase the Consolidated Fund deficit by 34 per cent to $817 million in 2002-03.

The Department largely achieved its performance targets in 2002-03. In some cases actual performance varied from targets by more than 10 per cent.

The Department incurred additional expenditure of $196 million in order to continue the operation of metropolitan public transport services since the March 2002 interim operating agreement. Major expenses incurred by the Department (partly offset by the receipt of $135 million from National Express Group (Australia) (NEGA) in lieu of performance bonds) included:
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- additional funding arising from the December 2002 interim operating agreement ($48 million). The estimated cost excludes a $49 million commitment if the additional funding period is elected;

- franchise taskforce costs ($16.6 million);

- a contribution towards NEGA unsecured creditors, as outlined in one-off costs ($20.6 million) associated with the deed of company arrangements;

- an estimated shortfall between revenue and expenditure of the franchisee businesses in receivership ($45.6 million) — for the period 22 December 2002 to 30 June 2003 and excludes ongoing commitments; and

- losses on the acquisition of NEGA new rolling stock financing vehicle companies ($66.9 million).

During 2002-03, the State waived its right to commission a survey to assess the condition of the rail infrastructure, thereby releasing the franchisees from potential infrastructure maintenance obligations. The Department is undertaking its own review of the quality of metropolitan rail infrastructure. The Committee is keen for the legal issues associated with the responsibility for infrastructure maintenance to be resolved.

The Department received an additional $9.2 million in 2002-03 to provide additional capacity to enhance the delivery of the Multi Purpose Taxi Program. The Department could not provide the Committee with an estimate of fraudulent claims by taxi drivers, which were reported to have cost up to $10 million per year. In 2003, investigations resulted in licence suspension or revocation for 19 drivers, one conviction and prosecutions of a further four drivers. By the end of the year, investigations of five drivers were ongoing pending notice of revocation of their driver certificates. Victoria Police was also investigating a number of serious cases.

Chapter 8: Department of Innovation, Industry and Regional Development

In 2002-03, the total Budget for the Department of Innovation, Industry and Regional Development and its agencies, adjusted for the machinery of government changes was $407 million. Actual expenditure for the year was $308.2 million, $98.8 million or 24.3 per cent under Budget.
The Department of Innovation, Industry and Regional Development reported an operating surplus of $97.3 million during 2002-03, which was mainly attributed to lower than budgeted grant payments for Regional Infrastructure Development Projects.

Total receipts of the Regional Infrastructure Development Fund for the period 2000-01 to 2002-03 amounted to $178 million, while expenditure for the same period totalled $53 million.

Unspent funds for Regional Infrastructure Development projects contributed to a significant variance in the Department’s cash assets at 30 June 2003, with the Department’s total assets exceeding budget estimates by $162.2 million or 40.3 per cent.

At 30 June 2003, the Department had not spent $102.2 million of its total funding allocation. However, only $65.2 million (or 63 per cent) of the unspent funds was approved by the Department of Treasury and Finance to be carried forward into the following year. The Committee has recommended the Department urgently review the adequacy of the budgeting of its projects.

In 2002-03 the Department did not comply with the *Financial Management Act* 1994, which requires actual and budget financial statement outcomes of the Department and its agencies to be disclosed in the annual report.

The output structure of the Department for 2002-03 comprised four output groups with responsibility for delivering 14 outputs. Actual output costs were under budget by $98.8 million because project implementation was delayed in the areas of tourism recovery, the Agenda for New Manufacturing, business development, and science, technology and innovation (STI) initiatives.

Employee expenses of the Department in 2002-03, amounted to $56.2 million. The Department paid bonus payments of $425,501 to executive officers and WorkCover premium of $188,942.

In 2002-03, expenditure on the Department’s asset investment program related to two major projects – the Television and Film Studio at the Docklands and the Synchrotron Project. The Government has allocated total funding of $197.2 million towards these projects.

The Government committed $40 million in loan funding towards the Film and Television Studio, of which the Department spent $22.4 million.
in 2002-03. The first stage of the project was completed in February 2004, ahead of its March 2004 completion date.

Minimal expenditure ($2.2 million against budgeted expenditure of $13.5 million) was incurred on the synchrotron facility in 2002-03. Notwithstanding the reduced level of actual expenditure in 2002-03, the Department indicated that the project is on track.

The Department’s annual report contained only limited information on the progress and status of major investment initiatives. The Committee recommends greater disclosure in the Department’s annual report on funding, expenditure and progress of major asset investment projects, given the significant level of Government funding committed to these projects.

The Department achieved most of its published performance targets in 2002-03. The Committee believes there is scope for improving the quality of the Department’s performance measures to more clearly demonstrate the extent to which program outcomes are achieved. The Committee also noted that the Department does not widely use benchmarking in developing performance measures and targets, or evaluating performance.

Overall expenditure for new initiatives funded during 2002-03 was significantly lower than budget, with expenditure of $41.62 million against a budget of $76.9 million.

**Chapter 9: Department of Justice**

In 2002-03, the total Budget for the Department of Justice and its agencies, adjusted for the machinery of government changes, was $2,051.6 million. Actual expenditure for the year was $2,132.6 million, $81 million or 4 per cent over Budget.

The output group structure for the Department of Justice in 2002-03 comprised 13 output groups with an actual expenditure of $2,118.7 million, or $35.3 million (1.7 per cent) above the budget estimate.

In 2002-03, expenditure on the Department of Justice’s asset investment program was $127 million, compared with budgeted expenditure of $145 million. Projects completed in 2002-03 included a number of new suburban police stations, upgrades to 17 police stations in rural locations and upgrades to several courts. Upgrades to police stations are
part of a $280 million program to build or rebuild 135 police stations by the end of 2006.

Although there was little variance in the Department output costs as a whole, Victoria Police received an additional $56.2 million. This increase was partly offset by a reduction in funding for two outputs: prisoner supervision and support (down $16.2 million) and the enforcement of court orders and warrants output (down $8.4 million).

The Department of Justice did not report on several outputs that some of its portfolio agencies delivered. Although three of these agencies reported on the outcomes in a format consistent with the Budget Papers, performance information was not reported for 12 outputs valued at more than $370 million. Non-disclosure of this performance information weakens accountability, and the onus should be on the Department to report on all output performance measures, irrespective of whether the Department, or a portfolio agency or community organisation, as a service provider, delivers the service.

Although the total number of hours allocated to police activities increased by 18.4 per cent in 2002-03, Victoria Police did not meet several of its performance targets. The Department advised the Committee that this was due to Victoria Police’s initial estimates representing significant and overly ambitious increases on the previous year’s targets.

The number of criminal offences recorded in Victoria declined by 5.5 per cent in 2002-03. When the number of offences is expressed as a rate per 100,000 people, criminal offences reported declined by 6.8 per cent. Victoria Police also improved the clearance rate for reported offences, which increased overall by 3 percentage points to 41 per cent in 2002-03.

Government Departments spent $14.9 million on legal services by 33 firms, selected to provide legal services under new arrangements established in July 2002. As part of the arrangements, the firms are required to provide pro bono legal services valued at $1.5 million in 2003-04. Expenditure on core government legal services through the Victorian Government Solicitor in 2002-03 was $7.3 million.

The suspension of speed camera fines by Victoria Police in November 2003 puts at risk significant revenue — revenue from the Traffic Camera Office in 2002-03 totalled $202.5 million.
Payments to the owners of Victoria’s two privately-operated prisons increased by 5.3 per cent in 2002-03, following the renegotiation of prison services agreements. Changes implemented under the new agreements include improved reporting requirements of contractors, revised prisoner healthcare standards and closer scrutiny of staff training.

The Estate Agents’ Trust Fund has consistently reported a surplus of revenue over expenses for the last several years. At the end of 2002-03, the balance of the fund was $177.5 million. Grants made from the fund in 2002-03 totalled $716,000. The Government recently proposed amendments to apply the funds to a broader range of areas.

**Chapter 10: Department of Premier and Cabinet**

In 2002-03, the total Budget for the Department of Premier and Cabinet and its agencies, adjusted for the machinery of government changes, was $586.1 million. Actual expenditure for the year was $446.6 million, $139.5 million or 23.8 per cent under Budget.

The Department of Premier and Cabinet supported four output groups in 2002-03. Total expenditure for these output groups was $5.8 million lower than the Budget allocation for that year, due mainly to the transfer of outputs as a result of machinery of government changes.

The Department output appropriations were $22 million higher than budgeted. This variance was due to additional funding for the increased operational requirements of the major arts agencies, principally the Australian Centre for the Moving Image and the National Gallery of Victoria.

Employee expenses of the Department and its Agencies amounted to $109.7 million. Performance bonuses of $414,134 were paid to the Department’s executive officers in 2002-03. All executive officers at the Executive Officer Level 2 classification were paid performance bonuses.

The Department and its agencies achieved most of their performance targets in 2002-03. However, the Committee noted that the Department’s annual report did not discuss variances from performance measures for the arts agencies.

The 2002–03 Budget allocated $61 million over five years for the Yarra Precinct Arts Integration Project. Scoping and planning works for the project commenced in 2002–03. Actual expenditure in 2002–03 was
92 per cent below budget. Given the significant cost of this project, the Department will need to actively monitor the progress of the project against established timeframes. This project was budgeted to be funded with $18 million from Crown Limited, in lieu of Crown Limited’s planned construction of the Lyric Theatre. However, the Department had recognised funding of only $16.4 million from Crown Limited.

The Office of the Ombudsman was in a negative operating position in 2002–03 with expenditure greater than revenue by $70,000. The additional responsibilities the Ombudsman now has with the introduction of the Whistleblowers Protection Act 2001 and the Transport (Miscellaneous Amendment) Act 2003 are expected to place greater demand on the resources of that Office. The Committee recommends that the funding requirements for the Office of the Ombudsman be reviewed in the context of the Ombudsman’s increased responsibilities.

Chapter 11: Department of Primary Industries

In 2002-03 the total Budget for the Department of Primary Industries and its agencies, adjusted for the machinery of government changes, was $145.4 million. Actual expenditure for the year was $186 million, $40.6 million or 27.9 per cent over Budget.

The Department of Primary Industries reported an operating surplus of $30.7 million in 2002-03 against an estimated Budget of $63.7 million. The variation mainly resulted from changes in the accounting treatment of resources received and provided free of charge, and in the level of grant payments made for drought assistance schemes.

Expenditure across the Department’s three output groups - Agriculture, Fisheries and Minerals and Petroleum - totalled $186 million, 28 per cent higher than the allocated budget of $145.3 million. Most of the cost increases were in the Agriculture output group and represented additional grant payments to farmers affected by the severe drought season of 2002-03.

At 30 June 2003, $58.5 million of the Department’s total capital ($26.6 million) and recurrent ($31.7 million) allocation remained unspent, due to delays in the implementation of capital projects and the reprioritisation of some projects to 2003-04. These delays were attributed to the affects of drought and bushfires in 2002-03.
The Department employed 2,569 staff (2,254 full time and 315 part time) at 30 June 2003 at a total cost of $56.1 million. Employee expenses of $56.1 million included three voluntary departure packages valued at $115,708 and staff bonus payments (excluding those for Executive Officers) of $161,335. Executive Officer bonus payments before the December 2002 machinery of government changes were reported by the Department of Sustainability and Environment as the successor organisation in law.

At 30 June 2003, the Department controlled net assets of $254.4 million, comprising total assets of $308.9 million and total liabilities of $54.5 million.

The Department’s Asset Investment Program for 2002-03 was budgeted at $46.1 million (excluding projects funded out of the Growing Victoria Infrastructure Reserve) with a major focus on the development of the Royal Melbourne Showgrounds and the redevelopment of a number of agriculture and marine institutes. Actual expenditure for 2002-03 was 65 per cent below the Budget allocation at $15.8 million.

The redevelopment of the showgrounds was postponed to 2003-04 pending the establishment of the joint venture agreement between the State Government and the Royal Agricultural Society. The Committee noted that expressions of interest for the development of the showgrounds were subsequently invited from interested parties in October 2003.

The completion dates for a number of projects funded under the Growing Victoria Infrastructure Reserve were extended by six to twelve months due to delays in the planning and design phases of the projects. The Committee has expressed concern about the cost impact of delays with implementing capital works.

The Department achieved or surpassed most of its published performance targets in 2002-03. Where targets were consistently exceeded, the Committee believes the Department should revise the targets to encourage higher levels of performance and productivity.

The Committee noted that the Department did not extensively use benchmarking in developing performance measures and targets, or evaluating departmental performance. The Committee encourages the wider use of benchmarking, where feasible, to better measure the efficiency and effectiveness of the Department’s service and output delivery.
The Rural Finance Corporation, as program administrator, approved 2,907 applications for drought assistance grants in 2002-03, at a total cost of $47.9 million. The Committee recommends that the Department’s annual report include information about the key outcomes from the drought assistance grant payments.

Chapter 12: Department of Sustainability and Environment

In 2002-03, the total Budget for the Department of Sustainability and Environment and its agencies, adjusted for the machinery of government changes, was $1,075.7 million. Actual expenditure for the year was $1,203.4 million, $127.7 million – or 11.9 per cent over Budget – due largely to increased fire suppression and drought recovery expenses, following the severe fire season of 2002-03.

During 2002-03, the Department of Sustainability and Environment and its agencies had an operating deficit of $63.6 million with total expenditure of $1,203.4 million exceeding revenue of $1,139 million. This result was mainly due to fixed asset write-offs associated with the former State owned Southern Hydro Ltd.

At 30 June 2003, the Department had underspent its total available funding by $118.1 million due to delays in the implementation of various projects. Delays were mainly attributed to the extended drought and fire season, and increased community and stakeholder consultation for certain projects.

Key projects for which funding had been approved by the Department of Treasury and Finance, but not spent by the Department of Sustainability and Environment at 30 June 2003 included:

- the restoration of environmental flows to the Snowy River ($8.1 million);
- the National Action Plan for Salinity and Water Quality ($11.9 million);
- the Snowy Initiative - Casey’s Weir ($21.4 million); and
- the Land Exchange System ($7 million).

The Department obtained approval to carry forward the total amount of its unspent funds to 2003-04.
The Department was responsible for the delivery of a number of outputs across its six output groups. There were significant variances between actual and budget expenditure for three of the Department’s output groups:

- **Catchment and Water** – This output group’s expenditure was $51.6 million under Budget due to delays in establishing the Snowy Joint Government Enterprise (SJGE) which was expected to become operational in December 2002. SJGE was established as a public company on 12 December 2003;

- **Conservation, Recreation and Public Land** – this output group’s expenditure was $59.7 million over Budget mainly due to legal costs and payouts associated with the Seal Rocks Sea Life Centre which amounted to $46.8 million in 2002-03. Other cost increases were attributed to the re-allocation of overheads as a result of the machinery of government changes; and

- **Forest and Fire Management** – this output group’s expenditure was $107.8 million over Budget, due to increased costs to combat the severity of the 2002-03 fire season.

At 30 June 2003, the Department and its agencies controlled total assets of $3,527.6 million and liabilities of $88.2 million. The value of actual assets was marginally (3 per cent) higher than projected, mainly due to an upward revaluation of assets (conservation reserves) and additions to buildings and plant and equipment. Liabilities were 6.9 per cent below the Budget estimate, because payments to creditors were processed earlier than budgeted.

In 2002-03, $60.6 million was held in the nine trust funds controlled by the Department. Revenue of $197 million and expenditure of $204.2 million were processed against these trust funds during 2002-03. Despite the magnitude of trust fund revenue and expenditure, the Department’s annual report did not disclose information on trust fund transactions.

The Department employed 2,460 full time and 199 part time staff at 30 June 2003. Employee costs totalled $281.7 million, an increase of $47.7 million against the Budget allocation. Employee related costs included nine separation packages valued at $348,163, staff bonus payments of $789,639 across all staff classifications (including Executive Officer bonus payments of $484,555). The Department paid WorkCover premiums of $4.6 million.
The Department and its agencies processed 29 stress related claims in 2002-03, including eight claims that were carried over from 2001-02. The total cost of claims was $461,662, with the Department accounting for 19 claims costing $369,304.

The asset investment projects of the Department in 2002-03 (excluding Growing Victoria Infrastructure Reserve projects) were budgeted at $43.6 million. Some of the larger investment projects that commenced during the year included Land Exchange, the replacement of existing open pipe channels in the Wimmera-Mallee region with a new piping system, and new town sewerage schemes.

Actual expenditure on asset investment projects totalled $21.7 million, down 50 per cent from the Budget allocation for 2002-03. The underspending reflected a number of factors, including delays in the completion of structure plans, the resolution of funding issues, incorrect assumptions about project completion timelines and a shortage of contract staff. The Committee recommends that the Department identify and address the reasons for delays in the implementation of asset investment projects, and assess the potential cost and funding exposures.

The Department achieved 65 per cent of its published performance measures and targets in 2002-03. It cited the impacts of the fire season and drought as the main reasons that it did not achieve a number of performance targets, especially in the areas of catchment and water, public land management, and forest and fire management.

During 2002-03, $44.7 million was provided for new output initiatives to be implemented by the Department. Funding was also provided for new asset investment initiatives to the value of $31.7 million. While the Department exceeded its Budget by $25.3 million in implementing new output initiatives, its expenditure on new asset initiatives was 47.2 per cent below the Budget allocation.

In 2002-03, National Action Plan funding of $35.9 million was provided to six catchment regions in Victoria that are considered to be most affected by salinity and water quality issues. Given that salinity and water quality are two of the most significant issues affecting the growth of the State, the Committee has recommended that the Department’s annual report should include information on the key outcomes of the National Action Plan funded projects, along with performance targets that are achieved in relation to improving or stabilising water quality and salinity levels.
The 2002-03 Budget provided funding of $54.3 million to the Environment Protection Authority (EPA Victoria) to deliver agreed outputs. Actual expenditure during 2002-03 was within 10 per cent of the Budget, at $50.9 million. EPA Victoria achieved most of its published performance targets for 2002-03. However, neither the Department’s annual report nor the EPA Victoria annual report disclosed actual performance outcomes against targets.

A major program managed by EPA Victoria is the three year Stormwater Action Program, which commenced in 2000-01. EPA Victoria had paid a total of $20.1 million in stormwater grants at 30 June 2003. Its annual report contained only limited information on the effectiveness of the stormwater program.

Chapter 13: Department of Treasury and Finance

In 2002-03, the total Budget for the Department of Treasury and Finance and its agencies, adjusted for the machinery of government changes, was $272.6 million. Actual expenditure for the year was $307.7 million, $35.1 million or 12.9 per cent above Budget.

The Department of Treasury and Finance supports seven output groups. The actual expenditure for these output groups in 2002–03 was $179.5 million, or $22 million below the adjusted Budget. This was due mainly to the Department being exempted from having to pay the capital asset charge of $16.3 million on its leased motor vehicle fleet. The Department advised that the leased motor vehicle fleet incurs an interest cost and that imposing the capital asset charge in addition to the lease interest would have been ‘doubling up’.

The Department and its portfolio Agencies had employee costs of $74.9 million. Performance bonuses of $654,100 were paid to the Department’s executive officers. All executive officers at the Executive Officer Level 1 classification (departmental heads) were paid performance bonuses.

The Department commissioned 35 consultancies at a total cost of $825,409. A consultancy that was commissioned by the Department of Treasury and Finance, and jointly funded with the Department of Human Services at a total cost of $296,178 was not disclosed in the annual reports of either Department.

The Department and its agencies largely achieved their performance targets for 2002–03. The following were among the variances:
only one of the 20 planned reviews of the service performance and fiscal management of existing public-private partnership contracts were conducted in 2002–03. The Department advised that delays in finalising the revised Partnerships Victoria guidance materials affected the completion of these reviews;

client satisfaction with the office accommodation services was lower than the target of 80 per cent, due to a change of property management contractor and the transition to a new service model in 2002–03; and

only 48 per cent of departmental clients were satisfied with the financing arrangements of the leased motor vehicle fleet. Key areas of dissatisfaction were the inflexibility of leasing and pricing arrangements and the lack of adequate management information to support the lease arrangements.

The Department took over the lease of Transport House from the former Public Transport Corporation in August 2002. The Department recognised a provision for lease payments on unused leased office space at Transport House of $13 million, in accordance with the requirements of a new accounting standard.

The unwinding of the public private partnership arrangements for the construction and operation of the Latrobe Regional Hospital was finalised in 2002–03. As part of the unwinding arrangements, the State agreed to pay out the debt raised to finance the construction of the hospital complex. The debt was paid out in full in September 2002, at the net market value of $44.4 million.

The Department’s leasing agreement for the whole of government leased motor vehicle fleet requires it to meet any shortfalls between the proceeds from the sale of the vehicles and the residual values of these vehicles. The Department had recognised an accumulated shortfall which totalled $57.5 million as at 30 June 2003.

In 2002-03, the Department reviewed the procedures for accounting for the disposal of the leased motor vehicle fleet. The outcome of the review resulted in a book loss of $53.2 million. This loss comprised a loss of $23.8 million as a result of adjustments to the lease liability and the leased motor vehicle asset values, and to lease interest and amortisation charges; and the correction to the accounting for the disposal of motor vehicles which resulted in a loss on disposal of $29.4 million.
Chapter 14: Department for Victorian Communities

In 2002-03, the total Budget for the Department for Victorian Communities and its agencies, adjusted for the machinery of government changes, was $194.9 million. Actual expenditure for the year was $275.6 million, $80.7 million or 41.4 per cent above Budget.

As part of the machinery of government changes in December 2002, the Department for Victorian Communities was created as a successor to the Department of Tourism, Sport and the Commonwealth Games and brings together 15 diverse work units, including Victorian Communities, Employment, Aboriginal Affairs, Local Government, Multicultural Affairs and Women’s Affairs. The Department has three major outputs with a combined budget of $193.1 million.

Significant variations from budget estimates were reported for each output group for 2002-03. The Committee was advised that these variations were due to the inclusion of expenses on corporate overheads and regional services that were not included in the 2002–03 adjusted figure because the corporate budget had not then been established.

The Department’s employee expenses were $26.4 million in 2002-03. The former Department of Tourism, Sport and the Commonwealth Games paid performance bonuses of $31,450 to its executive officers during 2002-03.

Many of the Department’s 2002-03 performance targets were achieved or exceeded, but the Committee questions the process that the Department used in setting targets and timelines, because some output groups had targets that were exceeded by more than 100 per cent.

The Committee is concerned that the delays in project commencement of some projects for the Commonwealth Games in 2006 may have cost implications.

The Government has introduced initiatives to limit the number of electronic gaming machines in targeted regions. This, combined with the introduction of smoking bans, has led to a reduction of revenue into the Community Support Fund. The Committee noted that a significant amount of money from the Community Support Fund is being used to supplement government programs and that such programs cannot be distinguished from other programs established by non-government agencies.
The employment programs administered by the Department have had some success. However, the reasons for the success of these programs are difficult to identify. The Department must develop a means to clearly demonstrate the link between the employment programs that it administers and the actual outcomes achieved.

The Committee recommends that the Department’s annual report include updated statistics to demonstrate the value and benefits of the employment programs. The Committee also recommends that the Department ensure there is no duplication or overlap of employment programs.

**Chapter 15: Review of Annual Reports of Departments and Agencies**

Annual reports are a key mechanism for government agencies to account to Parliament and the public for their performance and use of public funds. Good performance reporting allows the readers to judge achievements and value for money. When performance reporting is less than comprehensive, the accountability, transparency and openness of the Government and its agencies are diminished.

To encourage continuous improvement in reporting, the Committee reviewed the 2002-03 annual reports of the ten Departments during this Inquiry. In addition, the review also covered the 2002-03 reports of Victoria Police, the Environment Protection Authority, VicRoads, Melbourne Water, the National Gallery of Victoria, the Auditor-General’s Office and the five Parliamentary Departments.

Generally, Departments and agencies have made some advancement in reporting on their performance since the Committee’s last review, but the progress to ‘best practice’ is slow. There are certain noticeable improvements, such as increased (although still inadequate) use of key performance indicators to demonstrate achievement of objectives; better explanations of output performance shortfalls; and more discussion and analysis of financial results and issues.

The Committee is pleased to note that some agencies have made a special effort to improve the quality of the performance information in their annual reports — in particular, the Auditor-General’s Office, the Department of Sustainability and Environment, Victoria Police, VicRoads and Melbourne Water.
Overall, however, the quality of the performance information in annual reports varies significantly. Many agencies still focus on reporting initiatives, projects and activities, rather than their achievement of objectives and outcomes.

The Committee’s review of the annual reports identified common deficiencies in the published performance information. The key problems include:

- a weak correlation between the Corporate and Business Plans of agencies and their annual reports;
- inadequate information on the achievement of departmental objectives and Government outcomes;
- a lack of reporting of completed initiatives and projects against those planned for the current year;
- a lack of benchmarking comparisons with the performance results achieved by similar agencies in other Australian jurisdictions;
- the absence of information on shared responsibilities for cross-agency and whole of government performance issues;
- limited forward-looking commentaries on the future operating environment and developments as well as the challenges faced by the organisation; and
- an unbalanced presentation of the results of operations, with agencies emphasising the ‘good news’ and making few references to failures, setbacks and problems encountered during the year.

From the review of the annual reports, it is evident that there are two key obstacles to good performance reporting within the Victorian Public Sector. To overcome these obstacles, the Department of Treasury and Finance needs to:

- expedite the finalisation of the Performance Management and Reporting Framework; and
- develop a streamlined and standardised format (underpinned by legislative prescriptions) for agency performance reporting.

In the past, the Committee has expressed concerns in several of its Budget Estimates and Budget Outcomes reports about the incomplete
status of the Performance Management and Reporting Framework. Until the framework is completed, there will always be gaps in the performance information produced by agencies, particularly in information on the achievement of departmental objectives and Government outcomes. The Committee recommends a standardised format for performance reporting be developed by Department of Treasury and Finance to ensure a robust and consistent approach is applied across the public sector in annual reports.

Chapter 16: Review of Corporate and Business Plans of Departments and Agencies

As part of the review of the 2002-03 Budget Outcomes, the Committee conducted an examination of the Corporate and Business Plans of a large sample of Departments and agencies. The key aim of the review was to identify ways in which the plans can be made more effective in the accountability process and, in particular, in assessing the achievement of outputs, objectives and desired outcomes. Under the Financial Management Act, each agency’s performance analysis and evaluation is required to be documented in the annual report.

The Committee found the following common problems of the plans examined:

- insufficient information on the strategic and policy contexts for the plans and also on the link between departmental outputs and objectives and the Government’s desired outcomes;
- the disclosed performance measures and targets not being sufficiently comprehensive to enable a proper assessment of the achievement of objectives and outcomes;
- no specification of target dates or timelines for those projects and initiatives to be implemented during the planning period;
- a lack of reference to cross-agency and whole of government planning issues and a lack of measures of individual agencies’ contribution to joint outcomes; and
- the omission of information on other key issues such as benchmarking comparisons, the future operating environment and challenges, financial data and outlook, critical success factors and risk management strategies.
Over recent years, Victorian Governments have implemented significant reforms to the management and accountability practices across the public sector. These reforms have had important implications for corporate and business planning. Based on the review outlined in this report, the Committee believes that there is an urgent need for the Department of Treasury and Finance and the Department of Premier and Cabinet to issue a new and comprehensive planning guide on corporate and business planning. The existing guide (only in draft form) was issued in 1996.

The new guide should specify the standardised elements that Corporate and Business Plans must incorporate. This guidance will not only help to overcome many of the deficiencies of the existing plans but will also ensure a ‘best practice’ and consistent approach is applied across the public sector.

In addition, the new guide must also provide guidance on how to establish clear links between the Government’s desired outcomes and agencies’ corporate and business planning processes. Further, it must show how to ensure resource allocation decisions are made in the context of the Government’s strategic policy directions.
RECOMMENDATIONS

Chapter 1  Introduction and Responses to previous Budget Outcomes Report

Recommendation 1: The Department of Treasury and Finance amend the document Integrated Management Cycle to include details of the key dates that departmental responses to the PAEC Budget estimates questionnaire and the PAEC Budget outcomes questionnaire are required.

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Recommendation 2: The effectiveness of the Problem Gambling Communication Strategy be discussed in the annual report of the Department of Human Services by providing:

(a) details of actual performance against performance targets;
(b) an explanation for any variations;
(c) a comprehensive commentary on the overall performance of the strategy; and
(d) key objectives and targets for the following year.

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Recommendation 3: The Department of Innovation, Industry and Regional Development ensure its annual report includes all information required by Part 9 of the Directions issued by the Minister for Finance on annual reporting requirements.

Page 85
Recommendation 4: Consumer Affairs Victoria review its current evaluation methodology to determine the effectiveness of its consumer awareness publications.

Page 86

Chapter 2

Budget Overview

Recommendation 5: The explanations for the variations between Budget and actual revenue contained in the Annual Financial Report for the State of Victoria for the category – sales of goods and services, and other revenue – be presented under the respective classifications.

Page 102

Recommendation 6: The Budget financial statements include a note disclosure for the category – other revenue – which discloses the key components.

Page 102

Recommendation 7: The Department of Treasury and Finance develop a process for reporting progress of major cross agency and whole of government initiatives by Departments.

Page 107

Recommendation 8: The Department of Treasury and Finance prepare an annual economic activity report on the State of Victoria which reports on the accuracy of the Budget economic projections.

Page 112
Recommendation 9: The Department of Treasury and Finance include in the *Growing Victoria Together* progress report, the Government’s priorities, strategies and initiatives to achieve the *Growing Victoria Together* vision and identify the outcomes.

Recommendation 10: The Department of Treasury and Finance report on the progress of projects funded through the Growing Victoria Infrastructure Reserve. The report includes:

(a) the status of each project at the end of each financial year;

(b) for each project, a comparison of Budget and actual capital expenditure for the financial year;

(c) project time frames and reasons for changes.

Recommendation 11: The Government amend the reporting requirements of Section 4.2, paragraph (k) of the *Standing Directions of the Minister for Finance* to require that Departments must disclose the budgeted and actual cost of each output, inclusive of any new responsibilities, when reporting on performance in their annual reports.
Recommendation 12: The Government amend the reporting requirements of Section 4.2, paragraph (l) of the *Standing Directions of the Minister for Finance* in order to:

(a) specify whether the estimated or adjusted Budget should be used by Departments in the Budget portfolio outcomes statements; and

(b) require Departments to provide commentaries for significant variations from Budget to actual results in the Budget portfolio outcomes statements.

page 118

Recommendation 13: The Office of Public Employment conduct or arrange for the Victorian WorkCover Authority to undertake, an evaluation of departmental strategies to promote early return to work following stress related claims to ensure that the strategies are sustainable over the long term.

page 128

Recommendation 14: The Office of Public Employment or WorkCover conduct further research into the factors contributing to stress related workers compensation claims in the Victorian Public Sector.

page 129

Recommendation 15: The Department of Premier and Cabinet conduct a review of the application of executive officer performance bonuses in the Victorian Public Sector with a view to ensuring that the eligibility for bonuses is consistently applied across the public sector.

page 132
Recommendation 16: The Department of Premier and Cabinet issue additional directions that:

(a) reinforce the application of performance bonus policy as set out in the Executive Employment Handbook; and

(b) where Departments vary the performance assessment ratings for their senior executives, the criteria applied should be disclosed in departmental annual reports.

Chapter 3 Parliamentary Departments

Recommendation 17: The Parliamentary Departments ensure the key targets identified in their business and corporate plans are able to be measured and provide meaningful information on performance.

Recommendation 18: The Parliamentary Departments provide detailed information of achievements against targets in their annual reports in a format consistent with the key performance measures recorded in the Budget Papers.

Recommendation 19: The Presiding Officers urgently review and rectify the fundamental weaknesses in structure, management and risk strategies identified by the Auditor-General in his report on Parliament’s information technology upgrade.
Recommendation 20: The Parliamentary Departments investigate the use and application of benchmarking to develop performance measures and targets in order to enhance service delivery across the various output groups.

Recommendation 21: Action be taken by the Presiding Officers to resolve the use of the basement area at 157 Spring Street.

Chapter 4 Victorian Auditor-General's Office

Recommendation 22: As part of the Victorian Auditor-General’s commitment to continuous improvement, the Office review and expand the nature and detail of the performance information in its annual report to clearly indicate whether outcomes were achieved.

Recommendation 23: Where national benchmarks for the performance of Audit Offices are agreed upon by the Australasian Council of Auditors-General, those benchmarks be included in the annual report of the Victorian Auditor-General.
Chapter 5 Department of Education and Training

Recommendation 24: In view of the significant level of additional funding that was required to maintain education and training services and enrolment growth during 2002-03, the Department of Education and Training review its Budget development and management framework for schools to ensure a more accurate forecast of its Budget estimates.

Recommendation 25: The Department of Education and Training undertake a systematic assessment of factors contributing to increasing levels of stress related claims, and the adequacy of programs to assist in managing and mitigating the incidence of stress.

Recommendation 26: Financial information relating to each departmental trust fund be summarised in the annual report of the Department of Education and Training.

Recommendation 27: The Department of Education and Training review the adequacy of school maintenance budgets in meeting both the immediate and longer term school maintenance requirements.
Recommendation 28: The Department of Education and Training give priority to addressing the delays in implementing projects funded from the Growing Victoria Infrastructure Reserve.

Recommendation 29: Parent satisfaction surveys be undertaken by the Department of Education and Training on a more timely basis in order that:

(a) survey results can be utilised for performance improvement purposes; and

(b) the annual report of the Department contain details of the outcomes of the survey undertaken for the most recent calendar year.

Recommendation 30: Performance information contained in the annual report of the Department of Education and Training be supplemented by including national benchmarking information in the key areas of literacy, numeracy, student retention rates and cost of service delivery.

Recommendation 31: The Department of Education and Training examine the underlying reasons for declining trends in reading proficiency levels for year 3 students against national benchmarks, and for prep and year 1 students when compared to outcomes for 2001-02.
Recommendation 32: To strengthen accountability arrangements for the funding provided to schools to maintain the average P-2 class sizes at the target level of 21, the Department of Education and Training include in its 2003–04 annual report information on the number of additional teachers appointed by schools to assist with this initiative.

page 187

Recommendation 33: The retention and participation rates of middle year (5-9) students be disclosed in the annual report of the Department of Education and Training.

page 189

Recommendation 34: The Department of Education and Training re-evaluate the basis for the low completion rate target of the Victorian Certificate of Applied Learning in 2003-04, with a view to developing strategies that improve pass rates and employment prospects for students.

page 190

Recommendation 35: To assess the effectiveness of education initiatives and programs developed for Koori students, performance indicators be published in the annual report of the Department of Education and Training to separately identify attendance and retention rates of students at secondary and higher school levels.

page 192
Recommendation 36: The Department of Education and Training investigate the underlying factors contributing to declining levels of satisfaction expressed by TAFE graduates with the quality of training provided by TAFE institutes.

Recommendation 37: The Department of Education and Training:
(a) incorporate in its 2003-04 annual report the status of all recommendations from the review of university governance; and
(b) consider the application of some of the key recommendations of the university governance review to other State educational providers including the Victorian education and training sector.

Recommendation 38: The Department of Education and Training:
(a) ensure that key recommendations of the review of TAFE governance are implemented to enhance accountability and governance arrangements in TAFE institutes; and
(b) incorporate in its 2003-04 annual report the status of all recommendations from the review of TAFE governance.
Recommendation 39: The Budget Papers and the annual report of the Department of Human Services provide adequate disclosure of the Government's contribution to the housing asset program.

page 203

Recommendation 40: Financial information relating to each departmental trust fund be summarised in the annual report of the Department of Human Services.

page 210

Recommendation 41: The Department of Human Services include in the Budget Papers and in its annual report performance information on the level of tenant satisfaction at the Victorian level, as well as performance information relative to the national benchmark, for the Long Term Housing Assistance Output.

page 223

Recommendation 42: The Department of Human Services review existing data collection arrangements to ensure actual and targeted performance information for all outputs is included in its annual report.

page 225
Recommendation 43: The Department of Human Services:
(a) continue to report annually on the effectiveness of projects implemented under the hospital demand management strategy at each metropolitan health service; and
(b) undertake more formal evaluations of the projects funded under the strategy.

Recommendation 44: The Department of Treasury and Finance amend the Model Financial Report for Victorian Government Departments to require each Department contributing to a jointly funded consultancy over the value of $100,000 to disclose in their annual reports both the total value of the consultancy and the Departments’ contribution to the total value of the consultancy.

Recommendation 45: The Standing Directions of the Minister for Finance relating to the disclosure of consultancies valued at more than $100,000 be amended to specify that the $100,000 threshold for disclosure is inclusive of GST.

Recommendation 46: The Department of Human Services monitor the cost pressures facing its contract providers to deliver services in accordance with their service agreements.
Recommendation 47: The Department of Human Services include more informative outcome based performance measures for mental health services in its annual report and as part of the Budget Papers.

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Chapter 7

Department of Infrastructure

Recommendation 48: The Department of Infrastructure provide additional information in its annual report on the operations of the Public Transport Fund and the Better Roads Trust Account, including revenue sources and the projects/expenses to which funds are allocated.

page 260

Recommendation 49: The Department of Infrastructure:
(a) as a matter of urgency, complete the audit of the condition of Victoria’s rail infrastructure in order to quantify the State’s potential financial liability for necessary safety works and publicly release the details of the costs involved in any rectification work;
(b) seek clarification, as a matter of urgency, on the State’s potential liability for any incidents arising from rail infrastructure failures where failures of rail infrastructure maintenance, which was previously the responsibility of a franchisee, was a contributing factor; and
(c) once the results of the audit are known, a strategy plan be developed as soon as possible to address priority areas and projects.

page 270
Recommendation 50: The Department of Infrastructure undertake an independent survey to annually assess the progress made towards meeting the target of 20 per cent of travel in Melbourne by 2020 is taken on public transport.  

Recommendation 51: The Department of Infrastructure ensure there is an effective framework in place to monitor and evaluate the effects of the financial changes to the Multi-Purpose Taxi Program in conjunction with the ongoing accessibility of the program to eligible participants.  

Chapter 8  

Department of Innovation, Industry and Regional Development  

Recommendation 52: To enhance the accountability and transparency of financial disclosures and to ensure compliance with the requirements of the Financial Management Act 1994, the Department of Innovation, Industry and Regional Development disclose in its annual report variations between Budget and actual outcomes together with explanations for major variations.
Recommendation 53: The Department of Innovation, Industry and Regional Development urgently review the adequacy of its budgeting framework and project planning to remedy the continuing trend in underspending of its available appropriation authority.

page 286

Recommendation 54: The Department of Innovation, Industry and Regional Development:

(a) include in its annual report, information on the progress of Regional Infrastructure Development Projects against established milestones; and

(b) assess the implications of any delays in implementing funded projects on promoting development within Regional Victoria.

page 287

Recommendation 55: The Department of Innovation, Industry and Regional Development include in its 2003–04 annual report:

(a) a summary of the key components of the TV and Film Studio project that have been completed;

(b) details of the works that are scheduled for completion in future periods;

(c) actual and budget project costs; and

(d) details of any key changes or amendments in the project arrangements.

page 290
Recommendation 56: The Department of Innovation, Industry and Regional Development include in its annual report, the status of its key asset investment initiatives detailing the level of committed funding, actual costs incurred to date, estimated total project costs and the progress of projects against established milestones.

page 292

Recommendation 57: To provide a more effective means of evaluating the performance of the Department of Innovation, Industry and Regional Development, performance indicators should clearly demonstrate the extent to which key outcomes or results have been achieved.

page 295

Recommendation 58: To enhance the quality and usefulness of performance information disclosures, the Department of Innovation, Industry and Regional Development include in future annual reports actual to Budget cost outcomes for each output within the Output Groups and provide explanations for material variations in actual to target performance outcomes.

page 295

Recommendation 59: To enhance the quality of performance measures and targets and to facilitate comparisons of performance with organisations involved in the delivery of similar outputs or services, the Department of Innovation, Industry and Regional Development continue to research the availability and applicability of benchmarked data in developing its performance measures and targets.

page 297
Recommendation 60: More specific outcomes based performance measures and targets be developed and published in respect of the synchrotron project. A greater correlation with project costs should also be achieved in developing performance measures and targets.

Recommendation 61: Performance measures in relation to the implementation of the Biotechnology Strategic Development Plan be developed to more clearly reflect the extent to which the key objectives of the plan are being achieved.

Recommendation 62: The Department of Innovation, Industry and Regional Development include in its annual report additional information on the total funding provided for Science Technology and Innovation and expenditure commitments to date.

Recommendation 63: The Department of Innovation, Industry and Regional Development quantify and publish in its 2003-04 annual report, the benefits to Victoria from hosting the Australian Tourism Exchange.

Recommendation 64: To enhance the level of transparency and accountability of payments under the Operation Recovery Program, disclosure of key outcomes be included in the 2003-04 annual report of Tourism Victoria.
Chapter 9  Department of Justice

Recommendation 65: The Department of Justice review the adequacy of existing infrastructure project management frameworks with the view to improving the timelines of its asset investment programs.

Recommendation 66: The annual report of the Department of Justice include performance information on how grants made from trust funds are contributing to overall Government objectives.

Recommendation 67: The Department of Justice disclose in its annual report the budgeted and actual cost for the full range of outputs in the Justice portfolio.

Recommendation 68: The Department of Justice and Victoria Police:
(a) arrange for an expert evaluation of the accuracy and frequency of testing needed for the operation of speed cameras in Victoria; and
(b) if cameras are found to be defective, the potential impact on bonuses paid in the past to the operator should be examined.
Recommendations

Recommendation 69: (a) Decision makers should recognise that commercial–in-confidence provisions reduce the scrutiny available to the Parliament and the community over Government decision making and use of public funds, and that their use as a tool in managing the Government’s relationship with service providers should be avoided;

(b) That when considering the withholding of information on the grounds of confidentiality, Government observe the general principle that information should be made public unless there is a justifiable reason not to do so; and

(c) Unless the Department of Justice can demonstrate to the Minister for Corrections that disclosure of the tender price and terms and conditions would interfere with the proper and efficient performance of Government to such an extent as to outweigh the benefits of public disclosure, the Department should insert a standard provision in the service contract for privately operated prisons requiring the contractor to keep and provide all necessary information to allow for parliamentary scrutiny of the contract.
Recommendation 70: Victoria Police adopt more stringent monitoring and editing arrangements to ensure the accuracy of information presented in its annual report to the Parliament.

Chapter 10

Department of Premier and Cabinet

Recommendation 71: The annual report of the Department of Premier and Cabinet include disclosures of all:
(a) new departmental trust accounts and their purposes;
(b) departmental trust accounts that were closed during the year; and
(c) transactions and balances of departmental trust accounts.

Recommendation 72: The Department of Premier and Cabinet conduct regular assessments of the operations of all departmental trust accounts to ensure they remain relevant and appropriate in the context of the current financial management and accountability framework.

Recommendation 73: The Department of Premier and Cabinet include in its annual report explanations for performance targets that were not met for the arts agencies.
Recommendation 74: The Department of Premier and Cabinet actively monitor progress of the Yarra Precinct Arts Integration Project against established timeframes.

Recommendation 75: The Department of Premier and Cabinet review the adequacy of funding provided to the Office of the Ombudsman, in the context of its additional responsibilities.

Chapter 11 Department of Primary Industries

Recommendation 76: The Department of Primary Industries assess the impact of delays in the implementation of capital works in terms of future cost implications, the achievement of key performance targets and measures and the delivery of services and outputs.

Recommendation 77: Contract management frameworks be reviewed by the Department of Primary Industries to address delays in the planning and design phases of a number of Growing Victoria Infrastructure Reserve projects.

Recommendation 78: An upward revision to performance targets be undertaken where established targets have been consistently exceeded by the Department of Primary Industries.
Recommendation 79: To enhance disclosures of performance information in the annual report of the Department of Primary Industries:
(a) actual outcomes be more clearly defined (e.g. 92 per cent instead of >90 per cent);
(b) quantitative performance measures be further supplemented by effectiveness measures that demonstrate the achievement of program or service objectives; and
(c) performance measures and targets be published for research activities undertaken by research institutes.

Recommendation 80: The Department of Primary Industries incorporate benchmarked data where available and relevant in developing performance measures and targets to better measure the efficiency and effectiveness of output delivery and departmental performance.

Recommendation 81: The disclosure of information on key outcomes achieved under the drought assistance package payments be included in the annual report of the Department of Primary Industries.
Recommendation 82: Disclosures in the annual report of the Department of Primary Industries on major initiatives be strengthened to include:

(a) key performance measures and targets associated with major asset and output initiatives;

(b) progress against established milestones and targets; and

(c) actual and budgeted financial outcomes and explanations for any material variances.

Chapter 12 Department of Sustainability and Environment

Recommendation 83: The Department of Sustainability and Environment more clearly identify in its annual report the key factors that have contributed to material variances in actual to budget financial outcomes.

Recommendation 84: The Department of Sustainability and Environment:

(a) review its asset recording procedures to ensure compliance with the Department's capitalisation thresholds is achieved at all times; and

(b) review the arrangements for the security of assets, given that assets were deleted from the Fixed Asset Register, following a stock take.
Recommendation 85: Financial information relating to each departmental trust fund be summarised in the annual report of the Department of Sustainability and Environment.

page 402

Recommendation 86: The Department of Sustainability and Environment identify and address the reasons for delays in the implementation of asset investment projects and assess the potential cost and funding implications to which the Department may be exposed as a consequence.

page 406

Recommendation 87: Benchmarking techniques be more widely applied by the Department of Sustainability and Environment in developing performance measures and targets and to evaluate departmental performance in the delivery of programs, services and outputs.

page 413

Recommendation 88: The effectiveness of the voluntary licence reduction program, workers assistance program and contractors assistance program in meeting their key objectives be discussed in the annual report of the Department of Sustainability and Environment.

page 415

Recommendation 89: The Department of Sustainability and Environment review its funding requirements under the Sustainable Forestry Program in view of the higher than expected level of licences that were surrendered in some forest management areas.

page 415
Recommendation 90: In addition to the disclosure of activities undertaken under the *Victorian Greenhouse Strategy*, the progress report include details of the costs incurred in implementing projects and the extent to which established targets and outcomes have been achieved.

Recommendation 91: Urgent action be taken by the Department of Sustainability and Environment to resolve the future management and operation of the Seal Rocks Sea Life Centre.

Recommendation 92: The Department of Sustainability and Environment:
(a) summarise in its annual report the key outcomes of projects funded under the National Action Plan for Salinity and Water Quality;
(b) establish performance measures and targets to evaluate the effectiveness of salinity and water quality programs in reducing, preventing or stabilising salinity levels and improving water quality; and
(c) publish in its annual report salinity and water quality performance measures and targets.

Recommendation 93: To enhance accountability and transparency of information in relation to the delivery of outputs, actual performance outcomes against performance targets be disclosed in the annual report of either the Department of Sustainability and Environment or the Environment Protection Authority Victoria.
Recommendation 94: Disclosures within the annual report of the Environment Protection Authority Victoria be strengthened to include progress on key projects and outcomes under the Stormwater Action Program.

Chapter 13

Department of Treasury and Finance

Recommendation 95: The financial report of the Department of Treasury and Finance include additional disclosures of:
(a) new departmental trust accounts and their purpose;
(b) departmental trust accounts that were closed during the year; and
(c) transactions and balances of departmental trust accounts.

Recommendation 96: The financial report of the State of Victoria include additional disclosures of:
(a) new trust accounts and their purpose; and
(b) trust accounts that were closed during the year.

Recommendation 97: The Department of Treasury and Finance in its role as central agency, conduct regular assessments of the operations of all Departments’ trust accounts to ensure they remain relevant and appropriate in the context of the current financial management and accountability framework.
Recommendation 98: The Department of Treasury and Finance continue to monitor client satisfaction levels with its office accommodation services.

Recommendation 99: The Essential Services Commission in reporting on the cost of the Regulatory Services Output Group identify separately the overhead cost that was charged by the Department of Treasury and Finance.

Chapter 14 Department for Victorian Communities

Recommendation 100: The Department for Victorian Communities include in its annual report consolidated information on the disbursement of funds by licensed clubs to community organisations and activities.

Recommendation 101: The Department for Victorian Communities review performance information contained in the Budget Papers and its annual report to ensure that performance measures are costed and timelines and targets are achievable.

Recommendation 102: The Department for Victorian Communities take action to ensure that all municipal councils lodge their annual reports within the statutory timeframe.
Recommendation 103: The Department for Victorian Communities:
(a) resolve the outstanding issues that are delaying the building of facilities for the Commonwealth Games 2006; and
(b) ensure that performance information on the progress of all projects is made available to the Parliament and the public at regular intervals.

Recommendation 104: The Department for Victorian Communities undertake an evaluation of its project management capabilities and strategies.

Recommendation 105: That the Department for Victorian Communities:
(a) evaluate all employment programs it administers with a view to determining the key indicators of success directly linked to the programs;
(b) include in its annual report an analysis of the value and benefits that are being derived from the employment programs; and
(c) undertake a review to determine whether there is any duplication or overlapping of employment programs offered by other government agencies and organisations.
Chapter 15. Review of Annual Reports of Departments and Agencies

Recommendation 106: The Department of Treasury and Finance, as a matter of urgency, develop a standardised format for performance reporting in annual reports, together with guidance materials for Departments and Agencies.
Report on the 2002-03 Budget Outcomes
Chapter 1: Introduction and Responses to Previous Budget Outcomes Report

1.1 Introduction

The Committee’s review of the Budget outcomes is intended to enhance the accountability of Government Departments and Agencies and provide the Parliament and the community with more meaningful information about the results achieved in 2002-03 compared with the results intended. This follow up process complements the initial review that the Committee undertakes with the scrutiny of the Budget estimates.

The Committee’s review of the Budget outcomes includes a review of the annual reports and corporate and business plans of all Departments and some Agencies for 2002-03, the Government’s Statement of Budget Outcomes for 2002-03, the report of the Auditor-General on the finances of the State of Victoria for 2002-03 and responses from Departments to the Committee’s questionnaire.

1.2 Process followed by the Committee

On 28 November 2003, the Committee wrote to the Premier, senior Ministers for each Department and the Presiding Officers of the Parliament seeking a response to a number of questions relating to the outcomes of various departmental activities undertaken during 2002-03.

Ministers were asked to respond to the Committee’s questions by 18 December 2003. Only the response from the Minister for Agriculture, on behalf of the Department of Primary Industries, was received by the due date, with a further four responses received by the end of December 2003. The Department of Education and Training forwarded their response on 17 February 2004, which was the last to be received. Appendix 2 lists the Departments that provided a response.

The Committee believes that its review of the Budget outcomes is about accountability: accountability of Departments and Agencies to Government, and accountability of Government to the Parliament and the community, for the money that was raised (revenue $26,630.5 million) and spent (expenditure $26,394.6 million) in 2002-03.\(^2\)

\(^2\) Department of Treasury and Finance, *2002-03 Financial Report for the State of Victoria*, p.32
The Committee seeks the co-operation of all Ministers to ensure that departmental responses to our questionnaires, follow-up questions and requests for clarification of technical and complex issues are provided within a reasonable timeframe. The Committee notes that the document entitled Integrated Management Cycle, which outlines the full year cycle of the Budget estimates and indicates the main groups involved, key steps and dates, makes no reference to the dates that responses are required to the Committee’s Budget estimates and Budget outcomes questionnaires. The Committee believes it would assist Departments with their strategic planning and the allocation of resources if the document - Integrated Management Cycle - included details about the Committee’s timelines for receipt of Government responses to its Budget questionnaires.

The Committee recommends that:

**Recommendation 1:** The Department of Treasury and Finance amend the document Integrated Management Cycle to include details of the key dates that departmental responses to the PAEC Budget estimates questionnaire and the PAEC Budget outcomes questionnaire are required.

In line with the views expressed in the Auditor-General’s Report on parliamentary control and management of appropriations, this Committee is reviewing its procedures so its reports on the Budget outcomes and Budget estimates can be provided earlier to the Parliament. Ideally, the Committee would like to present the report on the Budget outcomes in December but for this to occur annual reports would need to be tabled by the end of August and the Auditor-General’s report on the finances of the State and the Government’s Statement of Budget Outcomes would also have to be tabled earlier than at present. These are matters that the Committee will be reporting on in greater detail later this year.

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3 Victorian Auditor-General’s Office, Report on parliamentary control and management of appropriations, April 2003
1.3 Legislative requirement to respond to the Committee's recommendations

Section 36(1) of the Parliamentary Committees Act 2003, provides that:

If a Joint Investigatory Committee’s report to the Parliament recommends that the Government take a particular action with respect to a matter, within 6 months of the report being laid before both Houses of the Parliament or being received by the clerks of both Houses of the Parliament, the appropriate responsible Minister must (a) provide the Parliament with a response to the Committee’s recommendations; or (b) if Parliament is not sitting, give a response to the report to the clerk of each House.

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

A review of the 2001-02 Budget outcomes did not occur because the Parliament was prorogued in November 2002 for the State election. When Members were appointed to the Public Accounts and Estimates Committee of the 55th Parliament on 27 March 2003, the Committee resolved to focus on preparing for the 2003-04 Budget estimates.

1.4 Previous recommendations

The Committee made 49 recommendations in its report on the 2000-01 Budget outcomes. Four recommendations related to the operations of the Victorian Auditor-General’s Office (VAGO).

1.4.1 Auditor-General’s response

The Auditor-General responded separately to the recommendations relating to his Office. Three of these related to expanding the quality of output performance measures (recommendations 13.2, 13.3 and 13.4).

One recommendation (13.1) related to reporting on the outcomes of follow-up audits in the VAGO annual report. The Auditor-General advised the Committee that during 2002-03 the Office had commenced a process of informing Parliament periodically on the status of action taken by Agencies on recommendations contained in performance audit
reports. The Committee is pleased that the Auditor-General intends to repeat this process each year.\textsuperscript{4}

In relation to the three recommendations relating to performance measures, the Auditor-General disagreed with recommendations 13.2 and 13.4.\textsuperscript{5}

The Auditor-General advised the Committee that data relating to agency satisfaction with performance audit reports is used internally to pinpoint areas with potential for improvement. The Auditor-General had some reservations about the benefit of publicly disclosing elements of this information because audits were conducted for the satisfaction of Parliament rather than the satisfaction of Agencies.\textsuperscript{6}

The Auditor-General also did not support the Committee’s recommendation (13.4) to develop additional performance measures and targets regarding the outputs of the Strategic Planning and Sector Liaison Group in order to measure its contribution to the overall objectives of the Office.\textsuperscript{7}

The Auditor-General considered that it was more appropriate to focus on the outputs of the Office as a whole rather than the various groups within the Office.\textsuperscript{8} The Auditor-General believed that the triennial performance audit of the Office (scheduled for 2004), was the most appropriate means of examining aspects of input efficiency.\textsuperscript{9}

The Committee is aware that several Agencies include performance measures in the Budget Papers that relate to the outcomes of particular organisational units. The Committee believes that reporting by the Audit Office would be enhanced by the development of these performance measures.

The Auditor-General also did not accept recommendation (13.3) that additional performance information be developed to measure the value-adding component of performance audit reports to the Parliament. The Auditor-General advised that his Office had undertaken additional work to enhance the presentation of performance reports since the 2000-01 annual report.\textsuperscript{10} The Committee noted that his Office intends to undertake a survey of Members of Parliament in 2003-04, and responses

\textsuperscript{4} Victorian Auditor-General’s Office, correspondence received 2 September 2003, p.4
\textsuperscript{5} Ibid
\textsuperscript{6} Ibid
\textsuperscript{7} Ibid
\textsuperscript{8} Ibid
\textsuperscript{9} Ibid
\textsuperscript{10} Ibid
will provide feedback on the value of performance audit reports.

**1.4.2 Government’s response**

A detailed break-down of the Government’s response to the recommendations relating to individual Departments is provided in the exhibit below. The Government’s response is at Appendix 3.

**Exhibit 1.1**

<table>
<thead>
<tr>
<th>Department</th>
<th>Accept</th>
<th>Accept in part</th>
<th>Accept in principle</th>
<th>Reject</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Education and Training</td>
<td>2</td>
<td></td>
<td>4</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Human Services</td>
<td>3</td>
<td>4</td>
<td></td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Innovation, Industry and Regional Development</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Justice</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Premier and Cabinet</td>
<td>2</td>
<td></td>
<td>1</td>
<td></td>
<td>3</td>
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<tr>
<td>Primary Industries</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Sustainability and Environment</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Treasury and Finance</td>
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<td>3</td>
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<td></td>
<td>6</td>
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<tr>
<td>Total</td>
<td>23</td>
<td>13</td>
<td>5</td>
<td>4</td>
<td>45</td>
</tr>
</tbody>
</table>

The Committee was pleased to note that three recommendations relating to improving the annual reports of the Parliamentary Library, the Department of Joint Services, Department of the Legislative Assembly, Department of the Legislative Council and the Department of Parliamentary Debates, have been implemented. The Committee also welcomes the development of an annual business plan by the Department of Joint Services, in accordance with the Committee’s recommendation.

The Committee was particularly interested in the response from the Government relating to the following recommendations.
Accept in Part — Recommendation 5.4, 2000-01 Budget Outcomes

The Department of Human Services ensure that information provided to the Public Accounts and Estimates Committee in relation to its performance is based on final data, is accurate and facilitates the analysis of departmental service delivery performance.

The Department of Human Services (DHS) advised the Committee that in some instances it was only able to provide estimates of actual performance due to delays in receiving information from external agencies. In its response, the Department stated that:

75 per cent of the services provided by (DHS) are delivered through external service providers. These providers range from large metropolitan hospitals to small non-government organisations managed by volunteer staff. DHS collects data about service performance from these service providers (approximately 2600 in total) using a range of media, including paper based reporting. Under these circumstances, data received by DHS is often lagged by up to 3 months. Where there are delays in receiving data from service providers, DHS may submit estimates of service performance to the PAEC. These estimates will later be adjusted to reflect actual performance.

The Committee notes the assurance from the Department that they are working to streamline and improve data collection arrangements to ensure greater accuracy and timeliness of service performance data from service providers.

However, as indicated in Chapter 6 of this report, the Committee has drawn attention to the fact that the final performance information for 16 measures for the Disability Services output group is still not available to the Committee, nine months after the end of the financial year. The Committee believes that performance information provides valuable information to the Parliament and the community about the business and performance of Government and it is therefore essential the Minister take steps to address the underlying reasons why this information is not included in the Department’s annual report. The Committee is disappointed that, based on the difficulties that have been encountered with obtaining final performance information for 2002-03 from the Department of Human Services, the timeliness of providing performance information does not appear to have improved.

12 Ibid
13 Ibid
The Committee intends to monitor this situation and will be raising this matter with the Minister at the 2004-05 budget estimates hearing.

Accept — Recommendation 8.2, 2000-01 Budget Outcomes

The Department of Natural Resources and Environment ensure that adequate resources are directed towards meeting targets for fuel reduction burning.

Subsequent to the Committee’s recommendation, the fire management program of the Department of Sustainability and Environment (created partly from the former Department of Natural Resources and Environment) has been the subject of an investigation by the Auditor-General\footnote{Victorian Auditor-General’s Office, Report on fire prevention and preparedness, May 2003} and the Victorian Bushfire Inquiry.\footnote{Report of the Inquiry into the 2002-03 Victorian Bushfires, October 2003} Both of these reports made recommendations to improve the level and reporting of fuel reduction burning.\footnote{Ibid}

The Department advised the Committee that it has made substantial efforts to increase the level of burning in 2003–04 by approving the extended employment of seasonal fire-fighters to allow spring and autumn burning opportunities to be taken.

The Committee is pleased the Department now has faster approval processes in place and five regional fuel reduction burning co-ordinators appointed.\footnote{Ibid} We trust that this will be reflected in future in greater success in meeting fuel reduction targets.

Accept — Recommendation 6.1, 2000-01 Budget Outcomes

The Director of Public Transport be responsible for monitoring the availability of automatic ticketing machines managed by OneLink Transit Systems Pty Ltd. The performance data collected should be published as public information.

The Department advised the Committee that it releases information to the public on the performance of the automated ticketing system equipment. Summary information was included in its 2002-03 annual report.\footnote{Ibid} The Department also advised that Track Record, a quarterly performance bulletin on Victoria’s train, tram and bus services contains
detailed information on the performance of the automated ticketing system equipment.\textsuperscript{19}

The Committee welcomes the publication of this performance information by the Department.

\textbf{Reject — Recommendation 7.2, 2000-01 Budget Outcomes}

\textit{The Department of Justice and Victoria Police assess the impact of the reduction in the total number of patrol hours, including whether the incidence of crime both reported and unreported is increasing, as a result of the ongoing diversion of police resources to the management of events.}

The Department advised the Committee that there was an upward trend in patrol hours and actual hours were high relative to the increase in police numbers during the period.\textsuperscript{20} The Department also advised that there was a significant one-off increase in event management in 2000, primarily due to the number of special events scheduled in the millennium year. While demand in 2001-02 and 2002-03 exceeded forecast by 15.4 per cent and 18 per cent respectively, that growth in demand is likely to moderate over time.\textsuperscript{21}

The Committee noted that hours based performance measures have been discontinued in the 2003-04 Budget Papers, and the Committee will be raising this matter with the Minister at the 2004-05 estimates hearing. The Committee will closely monitor performance against Victoria Police’s new performance measures for 2003-04 with a view to determining whether the new measures are adequate to report on Victoria Police performance against its key corporate objectives.

\textbf{Reject — Recommendation 9.2, 2000-01 Budget Outcomes}

\textit{The effectiveness of the Problem Gambling Communication Strategy be addressed in the annual report of the Department of Justice by providing details of actual performance against performance targets, an explanation for any variations and a comprehensive commentary on the overall performance of the strategy accompanied by key objectives and targets for the following year.}

The Department of Premier and Cabinet, the Department responsible for the Community Support Fund prior to the machinery of government...
changes in December 2002, rejected the recommendation on the basis that the $12 million allocated from the Community Support Fund in 2000-01 for the three year Problem Gambling Communication Strategy is under the management of the Department of Human Services.22

The Committee notes that the 2002-03 annual report of the Department of Human Services, reported the launch of phase 3 of its ‘Think of What You’re Really Gambling With’ media campaign in June 2003.23 No further information relating to the strategy was provided.

The Committee believes that the main thrust of the original recommendation remains valid – that further details of performance information relating to the strategy should be included in the relevant Department’s annual report. The Committee encourages the Department of Human Services to provide further details about the effectiveness of the strategy in its 2003-04 annual report.

The Committee reiterates its previous recommendation that:

**Recommendation 2:** The effectiveness of the Problem Gambling Communication Strategy be discussed in the annual report of the Department of Human Services by providing:

(a) details of actual performance against performance targets;

(b) an explanation for any variations;

(c) a comprehensive commentary on the overall performance of the strategy; and

(d) key objectives and targets for the following year.

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22 Ibid
23 Department of Human Services, 2002-03 Annual Report, p.68
Accept or accept in part — Recommendation 3.2, 2000-01 Budget Outcomes

The Department of State and Regional Development improve the quality of its annual report by:

(a) presenting information on key outputs within output groups in a manner that is consistent with the Department’s output group presentation in Budget Paper No. 3;

(b) for each output group, the key objectives, key issues, key results and future directions should be presented in a clear and concise manner and clearly linked to each key objective;

(c) the linkage of each output group to the major departmental objective(s) to which they relate;

(d) the linkage of output performance measures and their actual outcomes for the year in the relevant sections of the annual report where output group performance is reviewed; and

(e) detailed output group commentary and notes accompanying the presentation of output group data to explain the variances between established performance targets and actual measures and the performance of the Department in service delivery generally.

The Department advised the Committee that it accepted each part of the recommendation, except (d), which was accepted in part.24 The Committee’s review of the Department of Innovation, Industry and Regional Development’s 2002-03 annual report (see Chapter 15) noted the inclusion of a number of features which should assist readers in understanding the responsibilities of the Department and its role in achieving key Government outcomes.

While the Committee welcomes these improvements in the quality of the Department’s annual reporting, the Committee encourages the Department to address several instances where it did not comply with the Directions issued by the Minister for Finance on annual reporting requirements: for example last year’s comparatives are not provided for workforce data; the budget portfolio outcomes statements were not included; and there was no disclosure on occupational health and safety matters.

The Committee is concerned when the Directions of the Minister for Finance are disregarded.

The Committee recommends that:

**Recommendation 3:** The Department of Innovation, Industry and Regional Development ensure its annual report includes all information required by Part 9 of the Directions issued by the Minister for Finance on annual reporting requirements.

Accept in part — Recommendation 7.6, 2000-01 Budget Outcomes

*Consumer and Business Affairs Victoria develop performance measures for the annual report of the Department of Justice that show the effectiveness of its consumer awareness publications in reaching key and targeted audiences and achieving desired consumer outcomes.*

The Department advised the Committee that the effectiveness of major consumer awareness activities is evaluated, but that there are no specific performance measures included in the annual report of the Department of Justice. The Department also advised that it had planned further evaluations of major publications.

The Committee noted that Consumer and Business Affairs Victoria was formally changed to Consumer Affairs Victoria on 18 July 2002. The Committee also noted that the outputs covering Consumer Affairs Victoria were restructured in the 2003-04 budget, with a reduction from two outputs in 2002-03 to one output in 2003-04. No performance measure for the Consumer Protection output in 2003-04 relates to the effectiveness of Consumer Affairs Victoria’s consumer awareness publications.

The Committee believes that if Consumer Affairs Victoria’s expenditure on consumer awareness publications in 2003-04 is similar to 2000-01 (where expenditure on publications was equivalent to 6.9 per cent of Consumer Affairs Victoria’s allocation of funds from the Department of Justice), the amounts are significant enough to warrant the development

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25 Ibid
26 Consumer Affairs Victoria, 2002-03 Annual Report, p.3
27 Budget Paper No. 3, 2002-03 Budget Estimates, p.219
and reporting on a standard set of performance measures. The Committee encourages the Department to review the current evaluation methodology and incorporate such measures.

The Committee recommends that:

**Recommendation 4:** Consumer Affairs Victoria review its current evaluation methodology to determine the effectiveness of its consumer awareness publications.

**Accept — Recommendation 4.5, 2000-01 Budget Outcomes**

*The Department of Education and Training provide information in its annual report of the average school class sizes for Prep-Year 2 by region.*

The Department advised the Committee that it already monitors and reports on regional and metropolitan class size trends following the February school census. This information is included in the annual *Summary Statistics Victorian Schools* publication.28

The Committee noted that the Department intended to include this information in future annual reports.29

**Accept in principle — Recommendation 4.6, 2000-01 Budget Outcomes**

*The Department of Education and Training develop performance measures that assess the effectiveness of student welfare strategies that are implemented to mitigate risks to students.*

The Department advised the Committee that more recent student welfare strategies, such as the primary welfare officer initiative have made use of specific performance measures that will allow for the assessment of the effectiveness of such strategies.30

The Committee noted that the Department has planned a broader review of welfare initiatives during 2004. The Department indicated that the

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29 Ibid
30 Ibid
Chapter 1: Introduction and Responses to Previous Budget Outcomes Report

review will include an assessment of performance measures appropriate for these services.31

The Committee welcomes these developments and looks forward to the outcomes of the review.

31 Ibid
Report on the 2002-03 Budget Outcomes
Chapter 2: 2002—03 Budget Overview

Key Findings of the Committee:

2.1 The operating result for 2002–03 was a Budget surplus of $235.9 million, a decrease of $285.9 million from the Budget estimates. In 2002–03, revenue growth increased by 5.3 per cent compared to Budget, while expenditure increased at 6.6 per cent compared to the Budget estimates.

2.2 Total revenue was $26,630.5 million, or $1,348.8 million higher than the Budget estimates as a result of stronger than forecast taxation revenue due mainly to sustained growth in house prices, higher health and education grants received from the Commonwealth, and a range of one-off revenues. One-off revenues included $66 million for development rights at the Spencer Street Station redevelopment and $135 million from the National Express Group as compensation for its withdrawal from the Victorian public transport franchising arrangement.

2.3 Total expenditure was $26,394.6 million, or $1,634.6 million higher than the Budget estimates, due mainly to public sector employee costs ($501.4 million) and superannuation expenditure ($899.1 million). Significant Budget outlays announced subsequent to the original Budget included funding for bushfire suppression and recovery ($136 million), and drought assistance initiatives ($77 million). Various non–recurring expenditure included:

• the first–time recognition of certain expenditure such as the lease payments on unused leased space at Transport House; and the recognition of additional categories of insurance claims, as a result of the requirements of new accounting standards in 2002–03 ($51 million);

• payments arising from the settlement of the Seal Rocks project development dispute ($44 million); and

• changes to the accounting treatment for the recognition of proceeds and losses on the disposal of whole of government leased motor vehicles ($42 million).
Key Findings of the Committee (continued):

2.4 Total Budget sector assets in 2002–03 were $48,742.4 million, or $1,071.8 million higher than the adjusted Budget estimates. The variation in Budget sector assets was mainly as a result of higher valuations of land and buildings of the Department of Education and Training and public hospitals ($997.8 million); and cultural assets ($151.6 million).

2.5 Total Budget sector liabilities in 2002–03 were $25,134.5 million, or $350 million higher than the Budget estimates. The increase in liabilities was due mainly to an overpayment of grants by the Commonwealth Government to the State ($134.4 million).

2.6 The unfunded superannuation liability increased by $99.2 million from Budget, due mainly to lower investment market returns from the subdued equity market and changes in actuarial assumptions.

2.7 The annual budget was prepared using various economic projections. The Financial Report for the State of Victoria currently does not report on the accuracy of these projections and their impact on the projected Budget surplus.

2.8 The Government’s progress report on the Growing Victoria Together framework could be enhanced to include the priorities, strategies and initiatives implemented.

2.9 Given the significant funding allocated to the Growing Victoria Infrastructure Reserve, a report on the progress of these infrastructure projects would be timely.

2.10 The requirement in the Standing Directions of the Minister for Finance for the reporting of output performance measures does not specifically require each Department to report on its performance against its output cost target.

2.11 The requirement in the Standing Directions of the Minister for Finance for the reporting of the Budget portfolio outcomes is not strictly adhered to by some Departments. Furthermore, the requirements in the Standing Directions of the Minister for Finance need to be further developed to improve the consistency of reporting across Departments.
Key Findings of the Committee (continued):

2.12 In 2002-03 the Department of Infrastructure had not specifically complied with requirement to disclose parliamentary appropriations. Specifically, the Department had not provided explanations for variances between its parliamentary appropriations and the amounts applied, in its financial report.

2.13 Unbudgeted funds received by Departments were mainly advances received from the Treasurer and from temporary advances issued under section 35 of the Financial Management Act 1994.

2.14 WorkCover premium payments by the Parliamentary Departments, the Victorian Auditor-General’s Office and Departments and Budget agencies in 2002-03 totalled $160 million. The Agencies that paid the highest premiums were Victoria Police ($60.8 million), the Department of Education and Training ($43 million — includes teaching and non teaching school staff) and the Department of Human Services ($23.9 million).

2.15 Most Departments reported that the incidence of stress related workers compensation claims increased in 2002-03. During the year 683 stress related claims were lodged by departmental and Budget agency employees. The total cost of stress related claims in 2002–03 was $14.7 million.

2.16 More than 80 per cent of executive officers in the majority of Departments received bonuses, even though Government policy states that bonuses were only to be paid where performance was exceptional or substantially above the performance criteria.
2.1 Budget sector outcomes for 2002—03

The 2002–03 Budget forecast a surplus of $521.8 million.32 The actual result for 2002–03 was $235.9 million, which was $285.9 million or 54.8 per cent lower than the original Budget estimates.33 The reduced Budget surplus was attributed to higher than estimated expenditure in 2002–03.

New Government initiatives for bushfire suppression and recovery following one of the largest outbreaks of bushfires in Victoria’s recorded history, and the funding for drought relief in regional Victoria played a part in the increase in budgeted expenses in 2002–03. Other expenditure increases were public sector employee costs by $501.4 million primarily from the settlement of enterprise bargaining agreements for the education and health sectors and additional staffing in the education sector, and public sector superannuation expense which increased by $899.1 million following a subdued equity market performance in 2002–03. The significant increase in employee costs and superannuation expense signals the need for the Government to firmly control ongoing expenditure pressures.

The Government’s new departmental funding model which applies from the 2004–05 budget year requires each department to manage its costs within its output price.34

The Committee noted that State taxation revenue was the key revenue driver in contributing to the Budget surplus. In 2002–03, the continuing strong growth in the property market resulted in an increase of $525.7 million35 in taxation revenue from taxes and duties levied on property transactions. The cyclical nature of the property market and its inherent volatility means there should not be any over reliance on revenue from taxes and duties on property market transactions.

Another significant revenue source for the State in 2002–03 was grants received from the Commonwealth Government. Budgeted grants increased by $349.7 million due mainly to increased funding for educational and health priorities.

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32 Budget Paper No.2, 2002–03 Budget Statement, p.132
33 Department of Treasury and Finance, 2002-03 Financial Report for the State of Victoria, p.32
34 Department of Treasury and Finance, Departmental Funding Model, July 2003, p.2
35 This amount is comprised of taxes and duties on land transfers. (Source: Department of Treasury and Finance, 2002–03 Financial Report for the State of Victoria, p.10)
The Government returned a revised Budget surplus of $235.9 million in 2002–03. Given the restrictive capacity of the Government to raise revenue from external sources, the reliance on revenue from taxes and duties on property market transactions, and the expenditure pressures from public sector wage increases along with the effect of subdued equity markets on superannuation fund expenses, the Government will need to firmly manage its future Budgets in order to achieve its financial objective of maintaining a $100 million operating surplus in the short-term and to maintain net debt at prudent levels in the long-term.

The net asset position of the Budget sector as at 30 June 2003 was $23,607.9 million, which represented an increase of $721.8 million from the Budget estimates. The increase in the net asset position was attributed to higher than estimated budget sector asset balances. Total assets increased by $1,071.8 million, mainly as a result of higher valuations of land and buildings and cultural assets following their reassessment during 2002–03. Conversely, total liabilities increased by $350 million from Budget. The increase in liabilities was due mainly to an overpayment of grants by the Commonwealth Government to the State ($134.4 million).

The unfunded superannuation liability increased by $99.2 million compared to Budget. This was due mainly to lower investment market returns attributed to the subdued equity market and changes in actuarial assumptions compared with Budget forecasts. It was partially offset by the early payment of next year’s (2003-04) annual superannuation contribution of $750 million.

2.2 2002–03 Operating result

In 2002–03, total revenue was $26,630.5 million, or $1,348.8 million higher than the Budget estimates, while total expenditure was $26,394.6 million, or $1,634.6 million higher than estimated (see Exhibit 2.1). The Committee observed that although revenue increased by 5.3 per cent as compared to Budget, expenditure increased at a faster rate of 6.6 per cent.
Report on the 2002-03 Budget Outcomes

Exhibit 2.1

**Budget Sector**

**Statement of Financial Performance 2002—03**

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue from ordinary activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>8,802.7</td>
<td>9,350.3</td>
<td>547.6</td>
</tr>
<tr>
<td>Fines and regulatory fees</td>
<td>554.0</td>
<td>567.7</td>
<td>13.7</td>
</tr>
<tr>
<td>Investment revenue</td>
<td>1,061.6</td>
<td>1,205.7</td>
<td>144.1</td>
</tr>
<tr>
<td>Grants</td>
<td>11,753.5</td>
<td>12,103.2</td>
<td>349.7</td>
</tr>
<tr>
<td>Sale of goods and services</td>
<td>2,049.9</td>
<td>2,224.0</td>
<td>174.1</td>
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<td>Gain/(loss) on the disposal of physical assets (b)</td>
<td>19.6</td>
<td>-336.1</td>
<td>-385.7</td>
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<td>Fair value of assets received free of charge or for nominal consideration</td>
<td>1.1</td>
<td>85.8</td>
<td>84.7</td>
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<td>Intersector capital asset charge</td>
<td>501.0</td>
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<tr>
<td>Other revenue</td>
<td>538.3</td>
<td>929.0</td>
<td>390.7</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td><strong>25,281.7</strong></td>
<td><strong>26,630.5</strong></td>
<td><strong>1,348.8</strong></td>
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<th>Column 1</th>
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</thead>
<tbody>
<tr>
<td><strong>Expenses from ordinary activities</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>9,041.5</td>
<td>9,542.9</td>
<td>501.4</td>
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<tr>
<td>Superannuation</td>
<td>1,713.1</td>
<td>2,612.2</td>
<td>899.1</td>
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<tr>
<td>Depreciation</td>
<td>952.2</td>
<td>947.1</td>
<td>-5.1</td>
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<tr>
<td>Amortisation</td>
<td>70.6</td>
<td>90.0</td>
<td>19.4</td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>495.2</td>
<td>501.8</td>
<td>6.6</td>
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<td>Grants and transfer payments</td>
<td>4,118.9</td>
<td>4,038.0</td>
<td>-80.9</td>
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<tr>
<td>Supplies and services</td>
<td>8,299.9</td>
<td>8,465.9</td>
<td>166.0</td>
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<tr>
<td>Other expenses</td>
<td>68.6</td>
<td>196.7</td>
<td>128.1</td>
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<tr>
<td><strong>Total expenses</strong></td>
<td><strong>24,760.0</strong></td>
<td><strong>26,394.6</strong></td>
<td><strong>1,634.6</strong></td>
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<table>
<thead>
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<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
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</thead>
<tbody>
<tr>
<td><strong>Net result</strong></td>
<td><strong>521.8</strong></td>
<td><strong>235.9</strong></td>
<td><strong>-285.9</strong></td>
</tr>
</tbody>
</table>

Notes:  
(a) A negative variance indicates a Budget surplus for the particular line item  
(b) Actual result for 2002—03 was a loss  

**2.2.1 Revenue**

Budget sector revenue was mainly sourced from State taxation revenue and grants from the Commonwealth. These revenue sources accounted for 80.5 per cent of total actual revenue in 2002–03 (see Exhibit 2.2).
Exhibit 2.2

The analysis of the Budget sector results for key revenue sources in 2002–03 is presented in the following sections.

(a) Taxation revenue

The actual taxation revenue for 2002–03 was $9,350.4 million, which was $547.7 million above the Budget estimate. The components of taxation revenue and its variation from Budget to actual are shown in Exhibit 2.3.
The Committee noted that the 2002–03 Budget included initiatives that have an impact on taxation revenue. The Government intends these initiatives to provide a competitive tax regime for Victorian businesses. These initiatives were:

- raising of the payroll tax threshold from $515,000 to $550,000, in conjunction with reducing the payroll tax rate from 5.45 per cent to 5.35 per cent, effective from 1 July 2002;
- raising the land tax threshold from $125,000 to $150,000; and
- abolishing the stamp duty on unquoted marketable securities from 1 July 2002, a year ahead of schedule.

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36 Budget Paper No.2, 2002–03 Budget Statement, p.18
The explanations for variation in key taxation revenue items were:  

- payroll tax was $2,619.7 million, or $90.4 million below the budget estimates. The decrease reflected the trend in employment growth which was relatively stronger in industries where a large number of small firms remained below the tax threshold and hence were not subjected to payroll tax;

- taxes on financial and capital transactions were $2,638.9 million or $584.6 million higher than budgeted, due mainly to stronger than expected growth in conveyancing and mortgage duty revenues. This reflected the continued growth in house prices partly offset by a reduction in property transaction volumes; and

- gambling taxes were $1,325.7 million or $129.3 million below Budget. This was due mainly to the introduction of smoking bans in entertainment areas from 1 September 2002, along with the Government’s strategy of restricting the growth of electronic gaming machines. This resulted in the decrease in estimated revenues from electronic gaming machines.

(b) Investment revenue

Investment revenue was $1,205.7 million, or $144.1 million higher than Budget. The increase was primarily attributed to:

- higher than expected dividend, and income tax and rate equivalent revenue received from government business enterprises of $263 million. This was attributed to:

  - increased dividend, and income tax and rate equivalent revenue from the metropolitan water authorities of $180 million. Stronger financial performance was recorded by the metropolitan water authorities in 2002–03 with profits higher than expected caused by buoyant developer activity mainly from the continuing strong growth in property market activities; and

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37 Department of Treasury and Finance, 2002-03 Financial Report for the State of Victoria, pp.9-10
38 Ibid, p.11
increased dividends, and income tax equivalent revenue from Gascor of $68 million. It was originally envisaged that the full retail contestability in the Victorian gas market would occur in September 2001. However this was delayed to October 2002. Consequently, the delay prolonged the trading period for Gascor which resulted in the higher than budgeted dividend, and income tax equivalent revenue.

The above increases in dividends and income tax and rate equivalent revenue were partly offset by lower investment revenue from other sources ($109 million).

The Committee observed that although the operational performance of the major government business enterprises had improved from the previous year, these agencies, mainly in the water sector, were required to pay the Government a 43 per cent increase in dividends as compared to Budget. The Auditor-General reported that two retail water companies, City West Water and South East Water, were directed by the Government to pay additional dividends of $100 million.

(c) Grants revenue

Grants received from the Commonwealth Government were $12,103.1 million or $349.6 million higher than the Budget estimates (see Exhibit 2.4). The increase in grants was attributed mainly to specific purpose grants received from the Commonwealth to achieve Commonwealth-State objectives.

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39 Budget Paper No.2, 2002–03 Budget Statement, p.120
40 Ibid, p.35
41 Calculated by the Committee based on information in the Victorian Auditor-General’s Office, Report on the Finances of the State of Victoria 2002–03, November 2003, p.55
Chapter 2: 2002—03 Budget Overview

Exhibit 2.4

Grants Revenue 2002—03

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
<th>Variance ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03 Budget</td>
<td>2002-03 Actual</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General purpose grants (a)</td>
<td>6,772.4</td>
<td>6,774.1</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Specific purpose grants for on-passing (b)</td>
<td>1,296.3</td>
<td>1,443.0</td>
<td>146.7</td>
<td></td>
</tr>
<tr>
<td>Specific purpose grants (c)</td>
<td>3,684.8</td>
<td>3,886.0</td>
<td>201.2</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>11,753.5</td>
<td>12,103.1</td>
<td>349.6</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
(a) Includes the GST grants, transitional grants and the national competition policy payment received from the Commonwealth.
(b) Included in Budget and actual were operating and capital grants. Grants for on-passing are received from the Commonwealth for on-passing to third parties, such as non-government schools and local governments.43
(c) Included in Budget and actual were operating and capital grants.


The main increase in specific purpose grants of $347.9 million from Budget estimates was attributed to:44

- increased Commonwealth funding assistance to both non–government and government schools of $214 million, reflecting the Commonwealth’s new socio-economic status funding model for non-government schools, and changed assumptions on student enrolment growth and movements in average government school costs;
- funding for TAFE Institutes was higher by $24 million;
- increased funding for the Public Health Outcomes Funding Agreement of $35 million. The Department of Human Services advised that the increase was mainly for the National Meningococcal Immunisation Program;45
- funding for the National Health Development Fund ($19 million). The Department of Human Services advised that this relates to delayed funding for 2001–02 being received in the current year for projects such as, replacement and development

43 Department of Treasury and Finance, 2002–03 Financial Report for the State of Victoria, p.59
44 Ibid, pp.11–12
45 Department of Human Services response, received 11 February 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.50
of patient administration systems, and shared information technology services;\textsuperscript{46}

- increase in hospital grants of $53 million. The Department of Human Services advised that this grant was primarily related to additional funding for the Pharmaceutical Benefits Scheme and chemotherapy pharmaceuticals provided to patients on discharge ($12.2 million), Community Aged Care Package subsidies ($7.1 million), Research Grants received directly from the Commonwealth ($11.2 million), Regional Health Services Grants ($12.6 million) and other Commonwealth general and capital grants;\textsuperscript{47}

- the reimbursement from the Commonwealth for the Commonwealth Additional Grants for new homes was $25 million higher than anticipated; and

- an additional grant of $23 million for the Envirofund (National Heritage Trust) program.

The additional grants revenue outlined above was offset by a reduction in budgeted roads funding of $52 million.\textsuperscript{48} The Department of Infrastructure advised that the 2002–03 Budget included a provision for the Commonwealth’s contribution to the Mitcham–Frankston Freeway and the Commonwealth Government has put the funding for this project on hold.\textsuperscript{49}

(d) Other revenue

Total other revenue (comprising sales of goods and services, loss on the disposal of physical assets, assets received free of charge, capital asset charge revenue and other revenue) in 2002–03 was $3,403.7 million, an increase of $293.8 million from Budget estimates.

The increase was attributed mainly to:\textsuperscript{50}

- a one-off receipt of $66 million for development rights at the Spencer Street Station redevelopment;

\textsuperscript{46} Ibid, p.50 
\textsuperscript{47} Ibid 
\textsuperscript{49} Department of Infrastructure response, received 13 January 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.30 
\textsuperscript{50} Department of Treasury and Finance, 2002–03 \textit{Financial Report for the State of Victoria}, p.12
• a one-off receipt of $135 million from National Express Group as compensation for its withdrawal from the Victorian rail and tram franchising arrangements; and

• the recognition as revenue of the value of assets associated with the Latrobe Regional Hospital which was transferred to the State following the winding up of the public private partnership arrangement ($51 million).

The above revenue increases were offset by a number of non-recurring decreases including:

• the write-off of CityLink assets ($208 million). The Department of Infrastructure advised that the CityLink assets created and acquired by the State (mainly Stateworks\(^{52}\) and bridges) was required to be written-off to reflect Transurban’s responsibility for the maintenance of these assets. While the CityLink project was completed in 2000–01, resolution of outstanding matters associated with the CityLink project were not finalised until 2002–03;\(^{53}\)

• the write-down to nil of the value of land held by the State under the CityLink roads to comply with the Government’s valuation policy for land under roads ($46 million). The Department of Infrastructure advised that land acquired for the CityLink road network project was gazetted as ‘land under roads’ and revalued in accordance with the Government’s valuation policy for land under roads;\(^{54}\) and

• the write-off of State owned assets associated with the former Southern Hydro Ltd ($46 million). In 1997 the State-owned Southern Hydro Ltd was sold to a private consortium, the Southern Hydro Pty Ltd. The structural assets at the site of the former Southern Hydro Ltd were transferred to the former Department of Natural Resources and Environment. A review was conducted which identified that based on the requirements of accounting standards, the State does not control the benefits

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51 Ibid, p.13
52 Stateworks are works that the State undertook in relation to City Link that Transurban did not perform. (Source: Department of Infrastructure response, received 23 March 2004, to the Committee’s follow-up question)
53 Department of Infrastructure response, received 13 January 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, pp.30-31
54 Ibid, p.31
that arise from the use of the structural assets, and therefore, the State does not own these assets.\textsuperscript{55}

The Committee believes that the explanations for the variations between Budget and actual in the Annual Financial Report 2002–03 for the category – sales of goods and services, and other revenue\textsuperscript{56} – could be improved with these explanations presented under the respective categories rather than in a collective grouping as currently applies with the Annual Financial Report.\textsuperscript{57}

The Committee recommends that:

**Recommendation 5:** The explanations for the variations between Budget and actual revenue contained in the Annual Financial Report for the State of Victoria for the category – sales of goods and services, and other revenue – be presented under the respective classifications.

While the category – other revenue – accounts for less than 10 per cent of budgeted total revenue (see Exhibit 2.1), the transparency of this revenue could be further enhanced with the disclosure of the components of this revenue in the Budget financial statements. The Committee noted that a narrative disclosure is currently presented in the Annual Financial Report 2002–03 for this revenue category.\textsuperscript{58}

The Committee recommends that:

**Recommendation 6:** The budget financial statements include a note disclosure for the category – other revenue – which discloses the key components.

\textsuperscript{55} Department of Treasury and Finance response, received 4 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.20

\textsuperscript{56} In the Department of Treasury and Finance’s variance explanations between Budget and actual results, this category includes – gain/loss on disposal of physical assets, fair value of assets received free of charge or for nominal consideration, inter sector capital asset charge and other revenue

\textsuperscript{57} Department of Treasury and Finance, 2002–03 Financial Report for the State of Victoria, pp.12-13

\textsuperscript{58} Ibid, p.60
2.2.2 Expenses

The key expense items for the Budget sector were employee benefits and supplies and services, which accounted for 68.2 per cent of total actual expenses in 2002–03 (see Exhibit 2.5). Exhibit 2.5 also indicates that compared to Budget, actual superannuation expense in 2002–03 had increased at a faster rate than other expense types in the same year.

Exhibit 2.5

![Budget Sector Expense Composition, by Category 2002—03](chart)

Note: The percentage indicated against each bar in the above chart represents the weighting of each expenditure category against total expenditure.


Actual expenses for 2002–03 were $26,394.6 million, or $1,634.6 million higher than the budget estimates. The main increase in expenses was additional employee costs ($501.4 million) arising from public sector pay increases and superannuation expense ($899.1 million).
(a) Employee benefits

Actual employee costs for 2002–03 were $9,542.9 million, which was $501.4 million higher than the Budget estimates. The Department of Treasury and Finance advised the Committee that the increase was largely due to additional expenditure in the health and education sectors to improve service delivery, including:

- enterprise bargaining agreements for public health doctors, hospital support staff, other various health sector employees and various education sector employees;
- additional education sector staff (including teachers) to implement the reform and demand strategy initiative and the disability program; and
- additional employee expenses involving extra staffing as a result of additional activities funded by Commonwealth grants. In addition, funds raised from services provided by hospitals, schools and TAFE Institutes were applied towards employee related expenses.

(b) Superannuation expense

The superannuation expense for 2002–03 was $2,612.2 million, which was $899.1 million higher than the Budget estimates. The factors which affected the increased superannuation expense were:

- a higher than assumed inflation rate used in the forecasting of superannuation liability;
- the first-time recognition of $146 million of the State’s share of the unfunded superannuation liability in the Commonwealth regulated Health Super Fund for employees in the health sector. Lower than expected investment returns from the superannuation fund assets had increased the unfunded superannuation liability, thereby increasing the superannuation expense; and

59 Department of Treasury and Finance response, received 4 February 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.14
lower investment returns on superannuation fund assets of the State regulated superannuation funds. Superannuation expense increased by $764 million for these funds.

The two biggest State regulated superannuation funds are the State Superannuation Fund and the Emergency Services Superannuation Scheme. The investment return achieved by the State Superannuation Fund was 0.4 per cent, while the Emergency Services Superannuation Scheme achieved a return of 1.8 per cent, in 2002–03. These actual investment return rates were significantly below the Budget assumptions of 7 per cent for both funds.61

(c) Other expenses

Total other expenses (comprising depreciation and amortisation, borrowing costs, grants and transfer payments, supplies and services and other expenses) in 2002–03 were $14,239.5 million, an increase of $234.1 million from Budget estimates.

The increased expense was mainly due to:62

- drought assistance funding to provide assistance to farmers ($77 million);
- a one-off payment associated with the settlement of the Seal Rocks dispute in 2002–03 ($44 million). The Committee noted that this figure is different to the figure quoted by Department of Sustainability and Environment.63 The Committee understands the difference was due to the different interpretation of data by the Department of Sustainability and Environment, and the Department of Treasury and Finance;64
- changes in the accounting procedures for the recognition of proceeds and losses on the disposal of whole of government leased motor vehicles, resulting in an increase in depreciation and interest ($42 million);

61 Ibid
62 Ibid, pp.14-15
63 As reported in Chapter 12: Department of Sustainability and Environment, total costs to settle the dispute between the State and the Seal Rocks Victoria (Australia) Pty Ltd (SRVA) on the Seal Rocks development project was $55.9 million, which included $42.9 million paid to the SRVA (representing the indemnity award and costs) and $2.4 million paid to extinguish a lease on assets held by the SRVA. (Source: Department of Sustainability and Environment response, received 4 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.43)
64 Department of Sustainability and Environment response, received 22 March 2004, to the Committee’s follow-up questions
• the increase in liabilities associated with public health insurance claims as a result of new accounting pronouncements requiring the recognition of additional categories of claims ($38 million);

• a downwards revaluation in the value of State forests ($22 million). The lower valuation reflected the reduced commercial value of State forests in line with the Government’s policy to reduce logging activities;

• the recognition as an expense of an intra-government loan which was forgiven following the termination of the public-private partnership arrangement associated with the Latrobe Regional Hospital ($17 million);

• the recognition as an expense of the lease payments associated with unused leased office space at Transport House, in accordance with the requirements of new accounting standards ($16 million). The Committee was subsequently advised by the Department of Treasury and Finance that the actual provision was $13 million and the commentary in the Annual Financial Report 2002–03 was not updated to reflect the actual figure, which was $13 million;

• project management costs associated with the Mitcham-Frankston freeway ($14 million); and

• new funding initiatives for bushfire suppression and recovery strategy relating to the summer bushfires which impacted on Gippsland and the State’s north east region ($136 million). Funding was provided for a range of initiatives in several departments and for grants to individuals and organisations to meet fire suppression expenses and assist with fire recovery. The departments that delivered these initiatives included the Department of Sustainability and Environment, and the Department of Primary Industries.

The bushfire initiative was an example of an initiative which was delivered as a coordinated effort across various Departments. The Committee noted that existing reporting of government initiatives by

65 Department of Treasury and Finance, 2002–03 Financial Report for the State of Victoria, p.15
66 Department of Treasury and Finance response, received 24 March 2004, to the Committee’s follow-up questions
Departments does not allow for coordinated initiatives to be reported as one single initiative across government.

The Committee recommends that:

**Recommendation 7:** The Department of Treasury and Finance develop a process for reporting the progress of major cross-agency and whole of government initiatives by Departments.

### 2.3 Budget sector financial position

Total Budget sector assets in 2002–03 were $48,742.4 million, or $1,072.1 million higher than the adjusted Budget estimates (see Exhibit 2.6). The increase in Budget sector assets was attributed mainly to:

- a net increase of $773.4 million in the value of non-current physical assets comprising property, plant, equipment and roads network mostly due to higher than budgeted asset revaluations. The more significant increases in the valuations of land and buildings were in the Department of Education and Training, and public hospitals ($997.8 million); and

- an increase of $151.6 million in other assets mainly attributed to the increase in the value of cultural asset collections of the Library Board of Victoria.

Total Budget sector liabilities in 2002–03 were $25,134.5 million, or $350.2 million higher than the Budget estimates. The increase in liabilities was mainly attributed to:

- the increase of $99.2 million in the superannuation unfunded liability due to lower investment returns on superannuation fund assets and changes in actuarial assumptions compared with budget forecasts. This increase was partially offset by the advance payment of $750 million by the State as a superannuation contribution; and

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67 Department of Treasury and Finance, 2002–03 Financial Report for the State of Victoria, p.18
68 Ibid, p.18-19
Report on the 2002-03 Budget Outcomes

- an increase of $353.3 million in other liabilities⁶⁹ mainly attributed to an overpayment of general purpose grants by the Commonwealth, and an increase in the insurance claims liability.

The above increases in liabilities were offset by a decrease of $102.5 million in interest bearing liabilities, mainly associated with the transfer of the loans of the Docklands Authority to a new entity, the Victorian Urban Development Authority (VicUrban). The Docklands Authority and the Urban and Regional Land Corporation were merged to form VicUrban. VicUrban does not fall within the Budget sector classification for government reporting purposes.

Exhibit 2.6

<table>
<thead>
<tr>
<th>Budget Sector Statement of Financial Position 2002—03</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
<th>Column 3-2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2002-03</strong> Budget ($)</td>
<td>2002-03 Adjusted Budget (a) ($)</td>
<td>2002-03 Actual ($)</td>
<td>Variance (b) ($)</td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>912.8</td>
<td>1,699.6</td>
<td>1,123.1</td>
<td>-576.5</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>1,219.1</td>
<td>1,177.9</td>
<td>1,187.3</td>
<td>9.4</td>
</tr>
<tr>
<td>Receivables</td>
<td>1,084.5</td>
<td>1,161.7</td>
<td>1,265.5</td>
<td>103.8</td>
</tr>
<tr>
<td>Prepayments</td>
<td>37.0</td>
<td>41.4</td>
<td>51.8</td>
<td>10.4</td>
</tr>
<tr>
<td>Inventories</td>
<td>163.9</td>
<td>159.8</td>
<td>116.7</td>
<td>-43.1</td>
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<tr>
<td>Other assets</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>3,417.4</td>
<td>4,240.5</td>
<td>3,744.5</td>
<td>-496.0</td>
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<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Other financial assets</td>
<td>2,418.4</td>
<td>2,137.7</td>
<td>2,846.5</td>
<td>708.8</td>
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<td>Receivables</td>
<td>248.4</td>
<td>345.4</td>
<td>391.6</td>
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<tr>
<td>Inventories</td>
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<td>155.6</td>
<td>43.4</td>
<td>-112.2</td>
</tr>
<tr>
<td>Property, plant and equipment (d)</td>
<td>23,921.6</td>
<td>24,517.4</td>
<td>25,515.2</td>
<td>997.8</td>
</tr>
<tr>
<td>Road networks (e)</td>
<td>13,952.0</td>
<td>13,209.9</td>
<td>12,985.5</td>
<td>-224.4</td>
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<tr>
<td>Other assets</td>
<td>1,794.2</td>
<td>3,064.1</td>
<td>3,215.7</td>
<td>151.6</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>41,513.7</td>
<td>43,429.9</td>
<td>44,998.0</td>
<td>1,567.8</td>
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<tr>
<td><strong>Total assets</strong></td>
<td>44,931.1</td>
<td>47,670.4</td>
<td>48,742.4</td>
<td>1,071.8</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>1,154.7</td>
<td>1,571.1</td>
<td>1,546.0</td>
<td>-25.1</td>
</tr>
<tr>
<td>Interest-bearing liabilities</td>
<td>85.5</td>
<td>125.1</td>
<td>131.2</td>
<td>6.1</td>
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<tr>
<td>Employee benefits</td>
<td>826.6</td>
<td>873.5</td>
<td>946.6</td>
<td>73.1</td>
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<tr>
<td>Superannuation</td>
<td>990.1</td>
<td>1,518.9</td>
<td>534.9</td>
<td>-984.0</td>
</tr>
<tr>
<td>Outstanding insurance claims (f)</td>
<td>0.0</td>
<td>11.9</td>
<td>7.1</td>
<td>-4.8</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>531.1</td>
<td>356.7</td>
<td>483.8</td>
<td>127.1</td>
</tr>
</tbody>
</table>

⁶⁹ The liability categories included were payables, employee benefits, outstanding insurance claims and other liabilities.
Notes: (a) The adjusted budget was derived from the 2001—02 audited balances and the budgeted movements for 2002—03
(b) A negative variance indicates a Budget surplus for the particular line item
(c) Some figures may not add up due to rounding
(d) The actual figure for 2002—03 in the above table differs from the audited figure in the 2002—03 Financial Report for the State of Victoria (Annual Financial Report) of $ million. The difference was an increase of $3,709.5 million and was attributed to a change in the classification of road infrastructure assets. In the Annual Financial Report, road infrastructure assets were presented under the category, road networks.
(e) The actual figure for 2002—03 in the above table differs from the audited figure in the Annual Financial Report of $16,695 million. The difference was a decrease of $3,709.5 million from the Annual Financial Report and was attributed to a change in the classification of road infrastructure assets. In the 2002—03 Budget, road infrastructure assets were presented under a different category, property, plant and equipment.
(f) Outstanding insurance claims were included in a different liability category in the 2002—03 Budget

The Department of Treasury and Finance provided the following explanations for key variations in assets and liabilities between the adjusted Budget and actual results in 2002–03:

- cash assets – the decrease was mainly due to the $750 million advance payment to the State Superannuation Fund;
- prepayments – the increase of $10.4 million reflected higher than forecast prepaid expenses, mainly from the education sectors and public hospitals;

<table>
<thead>
<tr>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
<th>Column 3-2</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03 Budget ($ million)</td>
<td>2002-03 Adjusted Budget (a) ($ million)</td>
<td>2002-03 Actual ($ million)</td>
<td>Variance (b) ($ million)</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>3,588.0</td>
<td>4,457.2</td>
<td>3,649.7</td>
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<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>8.6</td>
<td>8.8</td>
<td>129.1</td>
</tr>
<tr>
<td>Interest-bearing liabilities</td>
<td>6,215.8</td>
<td>6,230.2</td>
<td>6,121.6</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>1,879.4</td>
<td>1,869.9</td>
<td>1,851.3</td>
</tr>
<tr>
<td>Superannuation</td>
<td>11,771.0</td>
<td>11,819.1</td>
<td>12,902.3</td>
</tr>
<tr>
<td>Outstanding insurance claims (f)</td>
<td>0.0</td>
<td>97.6</td>
<td>187.0</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>358.5</td>
<td>301.6</td>
<td>293.5</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>20,233.4</td>
<td>20,327.1</td>
<td>21,484.8</td>
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<tr>
<td>Total liabilities</td>
<td>23,821.4</td>
<td>24,784.3</td>
<td>25,134.5</td>
</tr>
<tr>
<td>Net assets</td>
<td>21,109.8</td>
<td>22,886.1</td>
<td>23,607.9</td>
</tr>
</tbody>
</table>

Sources: Department of Treasury and Finance response, received 4 February 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.17; Department of Treasury and Finance, 2002—03 Financial Report of the State of Victoria, p.33; Budget Paper No.2, 2002—03 Budget Statement, p.133
• inventories – the combined decrease in current and non-current inventories of $155.3 million were predominantly due to the transfer of land held for resale by the Docklands Authority to the Victorian Urban Development Authority (VicUrban);

• other financial assets (non-current) – the increase of $708.8 million was due to:
  - an increase in fixed interest securities held by the Department of Treasury and Finance; and
  - lower than budgeted drawdowns on investments by Departments due to increases in revenue received from external sources which could be retained by departments.

• property, plant and equipment – the increase of $997.8 million was due mainly to higher revaluations of land and buildings within the education and hospitals sector, which had not been budgeted for;

• road networks – the decrease of $224.4 million was attributed to a downward revaluation of road pavements;\(^73\)

• other assets – the increase of $151.6 million was mainly attributed to the increase in the value of cultural asset collections of the State Library;\(^74\)

• other liabilities (current) - the increase was mainly attributed to an overpayment of general purpose grants by the Commonwealth Government to the State of $134.4 million;\(^75\)

• interest bearing liabilities – the combined increase in the current and non-current interest bearing liability of $102.5 million was mainly associated with the transfer of the loans of the Docklands Authority to the Victorian Urban Development Authority (VicUrban);

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\(^73\) Department of Treasury and Finance response, received 25 March 2004, to the Committee’s follow-up questions

\(^74\) Department of Treasury and Finance, 2002–03 Financial Report for the State of Victoria, p.18

\(^75\) Department of Treasury and Finance response, received 24 December 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.7
• superannuation liability – the combined increase in current and non-current superannuation unfunded liability of $99.2 million was due to lower investment returns on superannuation assets which increased the Government’s unfunded superannuation liability, and changes in actuarial assumptions compared with budget forecasts. The increase in unfunded superannuation liability from the factors mentioned above was partially offset by the bringing forward to 2002–03 of the payment into the State Superannuation Fund of a $750 million superannuation contribution which was due in 2003–04.\footnote{76}

• outstanding insurance claims – the combined increase in the current and non-current insurance claims liability of $84.6 million was predominantly due to the first time recognition of additional categories of insurance claims by the Department of Human Services, in accordance with the requirements of new accounting pronouncements; and

• payables (non-current) – the increase of $120.3 million was attributed mainly to an amount that was payable by the Department of Human Services to the Victorian Managed Insurance Authority, as a result of the review of the reportable medical indemnity insurance claims.

2.4 Major issues

2.4.1 Economic projections

The 2002–03 Budget was prepared using various economic projections. The key economic projections are shown in Exhibit 2.7.

Exhibit 2.7

<table>
<thead>
<tr>
<th>Economic projections</th>
<th>Forecast 2002–03 (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic growth</td>
<td>3.5</td>
</tr>
<tr>
<td>Employment growth</td>
<td>1.5</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.25</td>
</tr>
<tr>
<td>Wages growth</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Sources: Budget Overview 2002–03, p.8; Budget Paper No.2, 2002–03 Budget Statement, p.136

\footnote{76} Budget Paper No.2, 2003–04 Budget Statement, p.119
The Government’s Annual Financial Report on the State of Victoria 2002–03 currently does not report on the accuracy of the Budget economic projections nor their affect on the Budget estimates. The Committee believes that there is merit in the Government reporting on the annual economic activity at the end of each Budget cycle, the accuracy of the Budget economic projections and its impact on the estimated Budget surplus.

The Committee recommends that:

**Recommendation 8:** The Department of Treasury and Finance prepare an annual economic activity report on the State of Victoria which reports on the accuracy of the Budget economic projections.

### 2.4.2 Growing Victoria Together framework

The Government’s broad vision for the future was contained in the *Growing Victoria Together* (GVT) document released in November 2001.

The inaugural report on the Government’s progress against its GVT vision was presented in the 2003–04 Budget Paper No.2. This report was restricted to reporting on the ‘demonstrating progress measure’ component in the GVT and does not canvass the range of Government priorities, strategies and initiatives that were directed towards achieving the broad vision and goals set out in the GVT. The Committee also noted that as part of the continuing work to develop the GVT framework, further work is to be conducted to refine the ‘demonstrating progress measures’ in the GVT.

The Committee welcomes the release of the inaugural *Growing Victoria Together* progress report. However, the Committee believes that the transparency and accountability of Government activities could be further enhanced with a more comprehensive progress report which also reports on the Government’s priorities, strategies and initiatives designed to achieve the GVT vision and its desired outcomes.

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77 Ibid, pp.325-343
78 Ibid, p.326
79 Ibid, p.326
The Committee recommends that:

**Recommendation 9:** The Department of Treasury and Finance include in the *Growing Victoria Together* progress report, the Government’s priorities, strategies and initiatives to achieve the *Growing Victoria Together* vision and identify the outcomes.

### 2.4.3 Growing Victoria Infrastructure Reserve

The Growing Victoria Infrastructure Reserve (GVIR) was established in the 2000–01 Budget to fund the Government’s infrastructure investment program. Total funding in the GVIR was $1,575 million, of which $1,363.4 million was allocated to various projects covering the periods 2001–02 to 2005–06.80

Significant resources were to be drawndown on the Growing Victoria infrastructure reserve in 2002–03, with total expenditure estimated at $570.3 million in the 2002–03 Budget.81 The Committee noted that the latest report on the Government’s asset investment program had revised the 2002–03 budgeted expenditure to $568.1 million, a reduction of $2.2 million (see Exhibit 2.8).82

#### Exhibit 2.8

**Growing Victoria infrastructure reserve**

<table>
<thead>
<tr>
<th>Project categories</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002-03</td>
<td>2002-03</td>
<td>Variance</td>
</tr>
<tr>
<td></td>
<td>Budget ($ million)</td>
<td>Revised (a) ($ million)</td>
<td>(b) ($ million)</td>
</tr>
<tr>
<td>Linking Victoria</td>
<td>110.0</td>
<td>110.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Skilling Victoria</td>
<td>99.9</td>
<td>91.3</td>
<td>-8.6</td>
</tr>
<tr>
<td>Connecting Victoria</td>
<td>45.4</td>
<td>50.9</td>
<td>5.5</td>
</tr>
<tr>
<td>Other asset projects</td>
<td>315.0</td>
<td>315.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>570.3</td>
<td>568.1</td>
<td>-2.2</td>
</tr>
</tbody>
</table>

**Notes:**

(a) The revised figures took into account estimated investment activity to 30 June 2003.
(b) A negative variance indicates a reduction in the budgeted capital expenditure for the particular line item

**Sources:**

- Budget Paper No.2, 2002—03 Budget Statement, pp.219-220
- Budget Information Paper No.1, 2003-04 Public Sector Asset Investment Program, pp.5-6

80 Budget Information Paper No.1, 2002-03 Public Sector Asset Investment Program, p.6
81 Budget Paper No.2, 2002–03 Budget Statement, pp.219-220
82 Budget Information Paper No.1, 2003-04 Public Sector Asset Investment Program, p.6
The Committee noted that the supplementary budget information paper *Budget Information Paper No.1, Public Sector Asset Investment Program*, which was released after the Budget was tabled, did not specifically report on the progress of the GVIR projects, except for details of estimated capital expenditure for 2002–03. The Government’s Annual Financial Report 2002–03 also did not provide any further information on the progress of these projects. Given the significant outlays from the GVIR, the Committee sees merit in a detailed report on the progress of the GVIR projects.

The Committee recommends that:

**Recommendation 10:** The Department of Treasury and Finance report on the progress of projects funded through the Growing Victoria Infrastructure Reserve. The report includes:

(a) the status of each project at the end of each financial year;

(b) for each project, a comparison of budget and actual capital expenditure for the financial year; and

(c) project time frames and reasons for changes.

### 2.4.4 Reporting of output cost

The machinery of government changes which took effect from December 2002 created new Departments and reallocated existing administrative responsibilities among the expanded number of Departments. Details of changes to the Departments are in the respective departmental chapters.

A number of Departments which received new responsibilities and administrative functions in the machinery of government changes, did not report the cost of their outputs when providing comments on performance information in their annual reports. An example was the Department for Victorian Communities (DVC).

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83 [Department of Treasury and Finance, 2002–03 Financial Report for the State of Victoria, pp.21–22](#)
The DVC reported its actual performance against targets for its output groups but did not report on the cost of the output. The Committee noted that no commentary was provided in the annual report of the DVC to explain this exception. Other Departments that did not provide the output cost information in their annual reports include the Department of Innovation, Industry and Regional Development, and the Department of Justice.

The Committee acknowledges that it may be onerous on the recipient Department to collate and report on the cost of its new outputs particularly in a situation affected by machinery of government changes. In the DVC’s follow-up response to a different question put by the Committee, the DVC indicated that during the 2002–03 year, financial services were supplied by six former Departments for the various units of the DVC, but that as from 1 July 2003 it moved to its own finance system, and will be in a position to better manage its budgetary position.

For 2002-03, the requirement for the reporting of performance information was contained in Clause 9.1.2 (iii) of the Standing Directions of the Minister for Finance. These Directions were reviewed by the Department of Treasury and Finance during 2002-03 and were replaced by a set of revised Directions which applies from 1 July 2003. Section 4.2, paragraph (k) of the revised Standing Directions of the Minister for Finance requires that Departments ‘must include a comparison of the output targets specified in the State Budget with actual performance against those targets’.

The Committee noted that this requirement has become open to interpretation by Departments, with reporting of output costs against Budget seen as optional.

The Committee considers that accountability for the expenditure of public monies is further enhanced if all Departments reported on the cost of their outputs as compared to output cost targets.

84 Department for Victorian Communities, 2002–03 Annual Report, pp.106-117
86 Department of Justice, 2002–03 Annual Report, pp.80-89
87 Department for Victorian Communities response, received 10 March 2004, to the Committee’s follow-up questions
88 This refers to the revised Standing Directions of the Minister for Finance issued by the Department of Treasury and Finance in June 2003, which was applicable from 1 July 2003
89 Department of Treasury and Finance, Standing Directions of the Minister for Finance under the Financial Management Act 1994, June 2003, p.56
The Committee recommends that:

**Recommendation 11:** The Government amend the reporting requirements of Section 4.2, paragraph (k) of the *Standing Directions of the Minister for Finance* to require that Departments must disclose the budgeted and actual cost of each output, inclusive of any new responsibilities, when reporting on performance in their annual reports.

### 2.4.5 Reporting of Budget portfolio outcomes

For 2002–03 the requirement for the reporting of Budget portfolio outcomes was contained in Clause 9.10 of the *Standing Directions of the Minister for Finance*. These Directions were rewritten into Section 4.2, paragraph (l) of the revised Standing Directions to apply from 1 July 2003. The Committee noted that Section 4.2, paragraph (l)\(^{90}\) of the *Standing Directions of the Minister for Finance* requires that Departments:

> must include in their annual report, a comparison between their portfolio financial statements published in Budget Paper No. 3 and actual results for the portfolio for the corresponding financial year.\(^{91}\)

The abovementioned comparisons are presented as a set of financial statements in the same format and consolidation basis as those contained in Budget Paper No. 3. These financial statements are referred to as the ‘budget portfolio outcomes’ and are not required to be audited by the Auditor-General.\(^{92}\) The budget portfolio outcomes statements include all entities for that portfolio which receive funding from the annual budget process.

The Committee noted that the Department of Innovation, Industry and Regional Development had not prepared a budget portfolio outcomes statement for inclusion in its 2002–03 annual report.

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\(^{90}\) This refers to the revised *Standing Directions of the Minister for Finance* issued by the Department of Treasury and Finance in June 2003, which was applicable from 1 July 2003

\(^{91}\) Department of Treasury and Finance, *Standing Directions of the Minister for Finance* under the *Financial Management Act 1994*, June 2003, p.56

\(^{92}\) Ibid
The Committee noted that the requirements in Clause 9.10 and Section 4.2, paragraph (l) did not specify the budget figures that were to be used by Departments to report against their actual outcomes. An example is the Department for Victorian Communities which used the budget for its predecessor, the Department of Tourism, Sport and the Commonwealth Games in its budget portfolio outcomes statements, which did not necessarily reflect the expanded responsibilities of the Department for Victorian Communities in 2002–03.93

Exhibit 2.9 indicates the budgets used by Departments in their budget portfolio outcomes statements.

**Exhibit 2.9**

<table>
<thead>
<tr>
<th>Department</th>
<th>2002–03 Budget (a)</th>
<th>2002–03 Adjusted Budget (b)</th>
<th>2002–03 Revised Budget (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Education and Training</td>
<td>ü</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Human Services</td>
<td></td>
<td>ü</td>
<td></td>
</tr>
<tr>
<td>Department of Infrastructure</td>
<td>ü</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Innovation, Industry and</td>
<td>(d)</td>
<td>(d)</td>
<td>(d)</td>
</tr>
<tr>
<td>Regional Development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Justice</td>
<td>ü</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Premier and Cabinet</td>
<td>ü</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Primary Industries</td>
<td></td>
<td>ü</td>
<td></td>
</tr>
<tr>
<td>Department of Sustainability and</td>
<td>ü (e)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Treasury and Finance</td>
<td>ü</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department for Victorian Communities</td>
<td>ü (f)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:  
(a) As reported in *Budget Paper No.3, 2002–03 Budget Estimates*, for the respective Department
(b) The adjusted Budget includes the 2002–03 Budget adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003. The adjusted Budget figures were reported in the *Budget Paper No.3, 2003–04 Budget Estimates*
(c) The revised budget takes into account additional funding approved during 2002–03 for Departments and machinery of government change adjustments.94
(d) The Department of Innovation, Industry and Regional Development did not prepare a budget portfolio outcomes statement as part of its annual reporting for 2002–03
(e) The adjusted Budget figure reported by the Department of Sustainability and Environment in the budget portfolio outcomes statements was slightly different to the figures in *Budget Paper No.3, 2003–04 Budget Estimates*
(f) The Department for Victorian Communities used the Budget for its predecessor, the Department of Tourism, Sport and the Commonwealth Games

Sources:  
Various departments, 2002–03 Annual Report; Department of Education and Training (pp.123-128); Department of Human Services (pp.13-16); Department of Infrastructure (pp.135-139); Department of Justice (pp.131-135); Department of Premier and Cabinet (pp.147-150); Department of Primary Industries (pp.133-138); Department of Sustainability and Environment (pp.153-159); Department of Treasury and Finance (pp.93-96) and Department for Victorian Community (pp.118-122)

93 Department for Victorian Communities, 2002–03 Annual Report, pp.118-122
94 *Budget Paper No.3, 2003–04 Budget Estimates*, p.3
Section 4.2, paragraph (1) of the *Standing Directions of the Minister for Finance*, do not require Departments to provide commentaries on significant variances from Budget to actual, in the budget portfolio outcomes statements. Nevertheless, certain Departments have provided explanations for significant variances in their budget portfolio outcomes. The Departments that did not provide commentaries on variances in their budget portfolio outcomes statements include the Department of Infrastructure, the Department of Human Services and the Department of Justice. Again, the Department for Victorian Communities which had used the budget for its predecessor, the Department of Tourism, Sport and the Commonwealth Games, was not in a position to report on the significant variances in its budget portfolio outcomes. As mentioned previously, the Department of Innovation, Industry and Regional Development did not prepare budget portfolio outcomes statements for 2002–03.

The Committee considers that the accountability for budgeted funds could be further enhanced with improved transparency in the reporting of the budget portfolio outcomes statement.

The Committee recommends that:

**Recommendation 12:** The Government amend the reporting requirements of Section 4.2, paragraph (1) of the *Standing Directions of the Minister for Finance* in order to:

(a) specify whether the estimated or adjusted Budget should be used by Departments in the Budget portfolio outcomes statements; and

(b) require Departments to provide commentaries for significant variations from Budget to actual results in the Budget portfolio outcomes statements.

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95 Department of Infrastructure, 2002–03 Annual Report, pp.136-139
96 Department of Human Services, 2002–03 Annual Report, pp.13-16
97 Department of Justice, 2002–03 Annual Report, pp.132-135
98 Department for Victorian Communities, 2002–03 Annual Report, pp.118-122
2.4.6 Unbudgeted funds

Annual funding to Departments is provided under the annual Appropriation Act, which provides funding for departmental outputs, asset investment activities and funding for activities administered by the Departments on behalf of the State. These appropriations represent the base amount that the Departments can spend in the year.

There also exists various other budget management mechanisms which are available to the Government to reallocate and augment the departmental parliamentary appropriations, without further express parliamentary approval. These provisions are contained in the annual Appropriation Act and in the Financial Management Act 1994. \(^ {99} \)

The Committee requested details of unbudgeted funds, that is, the amounts above the estimates shown in the 2002–03 Budget Paper No. 3, received by Departments in 2002–03. A summary of the responses is in Exhibit 2.10. Specific details of the application of unbudgeted funds are discussed in the respective departmental chapters.

The responses outlined in Exhibit 2.10 showed that additional funding of $614.1 million was approved through advances from the Treasurer. The Treasurer’s advance is an appropriation given to the Treasurer each year as part of the annual Appropriation Act, to meet any ‘… urgent claims that may arise before parliamentary sanction is obtained’. \(^ {100} \) The amount actually drawn down was $589.1 million, \(^ {101} \) reflecting underspending of $25 million of funds approved by the Treasurer to meet urgent claims. In the report *Parliamentary control and management of appropriations*, the Auditor-General highlighted the lack of a clear definition of the term ‘urgent claims’ at a statutory and administrative level. The Auditor-General found that expenditure funded from the Treasurer’s Advance had been open to wide interpretation at the discretion of the Government. \(^ {102} \)

The responses also indicated that Departments carried forward a total of $234.4 million from the previous financial year. Section 32 of the *Financial Management Act* 1994 allows Departments to carry forward

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\(^ {100} \) Ibid, p.65


appropriations from undelivered outputs to the following year to be expended on these incomplete outputs.

Temporary advances totalling $113.7 million were provided in 2002–03 (see Exhibit 2.10). Section 35 of the Financial Management Act 1994 allows the temporary issue out of the Public Account any money, subject to a capping limit, required to be provided for advances to the Minister for urgent claims before parliamentary sanction is obtained. These advances must be paid back into the Public Account once Parliamentary sanction is obtained.103

The Committee noted that expenditure from the Treasurer’s Advance and the temporary advance issued under section 35 of the Financial Management Act 1994 is presented as a schedule, in the subsequent year’s annual Appropriation Act.

The Departments also received a total of $101.5 million in unbudgeted funds under section 29 of the Financial Management Act 1994 (see Exhibit 2.10). Also known as annotated receipt arrangements, the parliamentary authority limit for certain departmental appropriation items may be increased by an amount equal to the value of departmental receipts specified under an agreement between the Treasurer and the relevant departmental Minister.104 Annotated receipt sources mainly include user charges and Commonwealth specific purpose grants.

The Auditor–General’s report on Parliamentary control and management of appropriations highlighted the lack of formalised annotated receipt agreements between the Treasurer and the respective Ministers, prior to the commencement of each financial year.105

In 2002–03 the requirement for Departments to disclose their parliamentary appropriations in their financial reports is contained in the Department of Treasury and Finance’s accounting bulletin APB No.28: Disclosure of Parliamentary Appropriations.106 In conjunction with the review of the Standing Directions of the Minister for Finance in 2002–03, the requirements in APB No.28 were rewritten into the new Financial Reporting Direction No.13: Disclosure of Parliamentary Appropriations (FRD 13). FRD 13 took effect from 1 July 2003.107

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103 Financial Management Act 1994, p.37
104 Victorian Auditor-General’s Office, Report on Parliamentary control and management of appropriations, April 2003, p.52
105 Ibid, p.53
107 Department of Treasury and Finance, Financial Reporting Directions No. 13: Disclosure of Parliamentary Appropriations
Both APB No.28 and FRD 13 require Departments to present a compliance statement which provides a summary of the available parliamentary appropriations and the value of appropriations applied, in the Departments financial report. This disclosure is required under Australian accounting standard AAS29 *Financial Reporting by Government*, which applied to Departments.

While each Department is required to also provide in the compliance statement a commentary on the significant variances between its parliamentary appropriations and the appropriations applied, the Committee noted the Department of Infrastructure\(^\text{108}\) had not complied with this requirement.

The Committee also noted that the transparency of the disclosure of the commentary on the variations between parliamentary appropriations and the appropriations applied, varies between Departments.

The Committee intends to examine further the issue of parliamentary oversight and control over all funding provided to Departments along with accountability arrangements, as part of its follow–up Inquiry into the Auditor-General’s Report on Parliamentary control and management of appropriations.

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\(^{108}\) Department of Infrastructure, 2002–03 Annual Report, pp.78–79
### Exhibit 2.10

**Unbudgeted funds, by Departments 2002—03**

<table>
<thead>
<tr>
<th>Departments</th>
<th>Annual appropriation ($ million)</th>
<th>Advance from Treasurer ($ million)</th>
<th>Section 3(2) ($ million)</th>
<th>Section 10 ($ million)</th>
<th>Section 29 ($ million)</th>
<th>Section 32 ($ million)</th>
<th>Section 35 ($ million)</th>
<th>Other ($ million)</th>
<th>Total ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parliamentary Departments (a)</td>
<td>4.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9.5 (b)</td>
<td>14.0</td>
</tr>
<tr>
<td>Victorian Auditor-General’s Office</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Education and Training</td>
<td>155.7</td>
<td></td>
<td>30.0</td>
<td>1.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>187.1</td>
</tr>
<tr>
<td>Department of Human Services</td>
<td>155.7</td>
<td></td>
<td>28.7</td>
<td>95.0</td>
<td>30.1</td>
<td>0.1</td>
<td>113.5 (c)</td>
<td>-113.5 (d)</td>
<td>337.0</td>
</tr>
<tr>
<td>Department of Infrastructure</td>
<td>41.5</td>
<td></td>
<td>180.8</td>
<td>2.3</td>
<td>95.0</td>
<td>30.1</td>
<td>0.1</td>
<td>113.5 (c)</td>
<td>337.0</td>
</tr>
<tr>
<td>Department of Innovation, Industry and Development</td>
<td>-5.7 (g)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Justice</td>
<td>58.9</td>
<td></td>
<td>58.9</td>
<td>9.1</td>
<td>-1.5</td>
<td>6.7</td>
<td></td>
<td></td>
<td>80.5</td>
</tr>
<tr>
<td>Department of Premier and Cabinet</td>
<td>32.1</td>
<td></td>
<td></td>
<td></td>
<td>-0.5</td>
<td>13.8</td>
<td>1.8</td>
<td></td>
<td>47.2</td>
</tr>
<tr>
<td>Department of Primary Industries</td>
<td>29.3 (h)</td>
<td></td>
<td>72.2</td>
<td>8.3</td>
<td>7.7</td>
<td></td>
<td></td>
<td></td>
<td>117.5</td>
</tr>
<tr>
<td>Department of Sustainability and Environment</td>
<td>186.3</td>
<td></td>
<td>186.3</td>
<td>68.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>254.4</td>
</tr>
<tr>
<td>Department of Treasury and Finance</td>
<td>7.2</td>
<td></td>
<td>7.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>44.4 (i)</td>
<td>51.6</td>
</tr>
<tr>
<td>Department for Victorian Communities</td>
<td>27.0</td>
<td></td>
<td>27.0</td>
<td>2.0</td>
<td>3.5</td>
<td>2.2</td>
<td></td>
<td></td>
<td>34.7</td>
</tr>
<tr>
<td>Total</td>
<td>30.9</td>
<td></td>
<td>614.1</td>
<td>180.8</td>
<td>10.6</td>
<td>101.5</td>
<td>234.4</td>
<td>113.7</td>
<td>113.5</td>
</tr>
</tbody>
</table>

**Notes:**

(a) Extracted by the Committee from the Schedule 1 information with verbal advice from Parliament on 23 March 2004

(b) This was associated with a Special Appropriation

(c) Department of Human Services advised that this was a temporary advance which was to offset the decline in the Department’s Special Appropriations

(d) This was associated with a Special Appropriation. The decrease was due to a decline in Special Appropriation gaming receipts

(e) Department of Infrastructure advised that actual receipts from the Commonwealth for roads projects were less than its adjusted budget figure

(f) Funding was received under the *Administrative Arrangement Act* 1983 for machinery of government changes to support the transfers of the DOI’s function to other Departments and to facilitate the transfers of other functions to DOI

(g) Department of Innovation, Industry and Regional Development advised that its actual appropriation was less than previously budgeted

(h) Department of Primary Industries advised that this was an adjustment made to the allocation statements for machinery of government changes and the establishment of the Department, and was approved by the Department of Treasury and Finance

(i) This advance was provided to the Latrobe Regional Hospital Pty Ltd

**Sources:** Various Departments, responses to the Committee’s 2002—03 Budget outcomes questionnaire; Parliamentary Departments (received 23 December 2003, Schedule 1); Victorian Auditor-General’s Office (received 23 December 2003, p16); Department of Education and Training (received 17 February 2004, p.19); Department of Human Services (received 11 February 2004, p.31); Department Of Infrastructure (received 13 January 2004, p.25); Department of Innovation, Industry and Regional Development (received 6 January 2004, p.19); Department Of Justice (received 19 December 2003, p.37); Department of Premier and Cabinet (received 6 February 2004, p.23); Department of Primary Industries (received 19 December 2003, p.22); Department of Sustainability and Environment (received 4 February 2004, p.29); Department of Treasury and Finance (received 24 December 2003, p.20) and Department for Victorian Communities (received 31 December 2003, p.28).
2.4.7 Stress related workers compensation claims

In its 2003-04 Budget Estimates report, the Committee noted that the public sector workforce has a relatively high proportion of employees on stress leave.\textsuperscript{119} The Minister for WorkCover, in a response to a follow-up question from the Committee, acknowledged that the incidence of stress claims has increased across all sections of the public service. In response, the Committee was assured that a number of WorkSafe strategies had been developed to address this problem.\textsuperscript{120}

The Committee noted that the annual WorkCover premium cost for the Departments and budget portfolio agencies, Parliamentary Departments and the Victorian Auditor–General’s Office was around $160 million\textsuperscript{121} in 2002-03 —excluding premiums paid by agencies funded by the Department of Human Services\textsuperscript{122} and the Department of Primary Industries which was not a WorkCover entity during 2002–03.\textsuperscript{123} The WorkCover premium amount paid in 2002-03 varied — with the highest amounts paid by Victoria Police ($60.8 million), the Department of Education and Training ($43 million — includes teaching and
non-teaching school staff)\(^\text{124}\) and the Department of Human Services ($23.9 million).\(^\text{125}\)

Stress related claims represent a relatively small but growing share of the total workers compensation claims made in Victoria. In 2001-02, the Victorian WorkCover Authority reported that there was a total of almost 32,000 workers compensation claims lodged, of which 2,559 were stress related.\(^\text{126}\) As a share of total claims, stress related claims increased from 2.9 per cent in 1993-94 to 8 per cent in 2001-02.\(^\text{127}\)

The Committee was interested in exploring the cost implications of stress leave on departmental budgets and in 2002–03 asked the Department of Premier and Cabinet to provide, on an agency basis, the number of stress related WorkCover claims across the Victorian Public Sector for 2002-03, with comparative information for 2001-02.\(^\text{128}\)

During the Budget Estimates hearings, the Department of Premier and Cabinet advised the Committee that the *Accident Compensation Act 1985* restricts the Victorian WorkCover Authority’s disclosure of WorkCover information to only those parties authorised under the Act, and that the Department of Premier and Cabinet and the Premier’s Office are not authorised parties.\(^\text{129}\) As a consequence, the Committee was not provided with the information.

Subsequently, the Committee requested information on the number and cost of stress related claims for each Department and each agency within the Department’s budget portfolio in 2002-03 as part of its 2002-03 Budget outcomes questionnaire. Except for the Department of Human Services, all other Departments provided the requested stress related claims information for its agencies.\(^\text{130}\)

\(^{124}\) Departmental responses to the Committee’s 2002–03 Budget outcomes questionnaire: Department of Education of Training (received 17 February 2004, p.9); Department of Justice (received 19 December 2003, p.12)

\(^{125}\) Department of Human Services response, received 11 February 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.10


\(^{127}\) Ibid


\(^{129}\) Ibid

\(^{130}\) Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.10
The Department of Human Services informed the Committee that the Victorian WorkCover Authority had previously advised the Department it could not release this information without Governor-in-Council approval, consistent with the provisions of the Accident Compensation Act 1985, s.243(2)(viii). After querying this advice with the Department of Treasury and Finance, the Department of Human Services was advised that the former Health Department was granted such approval by the Governor-in-Council. The Department of Human Services advised the Committee that it may take the Victorian WorkCover Authority a few weeks to process this request.

The Committee is disappointed that this information from the Agencies of the Department of Human Services was not provided in time to be included in this report. The Committee intends to follow-up on this work in its review of the 2004-05 Budget Estimates.

Responses from Departments indicated that the total cost of stress related claims for departmental and budget agency employees in 2002-03 was $14.7 million and that there was a significant number of stress related claims lodged across the Victorian Public Sector in 2002-03 (see Exhibit 2.11).

This estimate understates the extent of stress related claims in the public sector because it does not include information from some key areas included in the Department of Human Services portfolio — such as public hospital services.

The Committee recognises that the factors contributing to stress related workers compensation claims are complex.
### Exhibit 2.11

**Stress Related Claims by Departments 2002-03**

<table>
<thead>
<tr>
<th>Department</th>
<th>Number of stress related claims lodged in 2002–03</th>
<th>Number of stress related claims carried forward from 2001–02</th>
<th>Total cost of stress related claims in 2002–03 ($)</th>
<th>Number of claims as a percentage of EFT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parliamentary Departments</td>
<td>2</td>
<td>0</td>
<td>94,643</td>
<td>0.4</td>
</tr>
<tr>
<td>Department of Education and Training (a)</td>
<td>236</td>
<td>55</td>
<td>3,677,583</td>
<td>0.6</td>
</tr>
<tr>
<td>Department of Human Services (b)</td>
<td>126</td>
<td>84</td>
<td>1,550,635</td>
<td>1.9</td>
</tr>
<tr>
<td>Department of Infrastructure (c)</td>
<td>9</td>
<td>2</td>
<td>105,580</td>
<td>0.4</td>
</tr>
<tr>
<td>Department of Innovation, Industry and Regional Development</td>
<td>0</td>
<td>3</td>
<td>45,301</td>
<td>0.2</td>
</tr>
<tr>
<td>Department of Justice (d)</td>
<td>285</td>
<td>130</td>
<td>8,649,544</td>
<td>2.0</td>
</tr>
<tr>
<td>Department of Premier and Cabinet</td>
<td>3</td>
<td>0</td>
<td>81,327</td>
<td>0.6</td>
</tr>
<tr>
<td>Department of Primary Industries (e)</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Department of Sustainability and Environment (f)</td>
<td>21</td>
<td>8</td>
<td>461,662</td>
<td>0.6</td>
</tr>
<tr>
<td>Department of Treasury and Finance (g)</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Department for Victorian Communities</td>
<td>1</td>
<td>0</td>
<td>134</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>683</strong></td>
<td><strong>282</strong></td>
<td><strong>14,666,409</strong></td>
<td><strong>1.04</strong></td>
</tr>
</tbody>
</table>

Notes:
- (a) Department of Education and Training includes teaching and non-teaching school staff and departmental office employees. Excludes TAFE institutes\(^{133}\)
- (b) Department of Human Services relates to the Department only. Excludes employees of health services and non-government agencies\(^{134}\)
- (c) Most claims related to VicRoads employees\(^{135}\)
- (d) Most claims related to Victoria Police employees\(^{136}\)
- (e) Stress related claims for the Department of Primary Industries is included in the Department of Sustainability and Environment in 2002-03. The Department of Primary Industries was not a separate WorkCover entity prior to July 2003\(^{137}\)
- (f) Includes major portfolio agencies\(^{138}\)
- (g) Does not include State Revenue Office, for which information was unavailable\(^{139}\)
- na Not available

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133 Department of Education and Training response, received 17 February 2004, to the Committee's 2002-03 Budget outcomes questionnaire, p.9-10
134 Department of Human Services response, received 11 February 2004, to the Committee's 2002-03 Budget outcomes questionnaire, p.10
135 Department of Infrastructure response, received 13 January 2004, to the Committee's 2002-03 Budget outcomes questionnaire, p.12
136 Department of Justice response, received 19 December 2003, to the Committee's 2002-03 Budget outcomes questionnaire, p.13
137 Department of Primary Industry response, received 19 December 2003, to the Committee's 2002-03 Budget outcomes questionnaire, p.6
138 Department of Sustainability and Environment response, received 4 February 2004, to the Committee's 2002-03 Budget outcomes questionnaire, p.10-11
139 Department of Treasury and Finance response, received 24 December 2003, to the Committee's 2002-03 Budget outcomes questionnaire, p.11
The aggregated information masks significant differences in the incidence and cost of stress related claims across the public sector. For example, public servants involved in delivering services in policing and education generally reported a higher incidence and cost of stress related claims. In 2002-03, Victoria Police employees lodged 229 claims and employees with the Department of Education and Training (including teaching and non-teaching school staff) made 236 claims.140

While there were some exceptions, most Departments reported to the Committee that the incidence of stress related claims across portfolio agencies had increased in 2002-03.141 The experience at those agencies accounting for more than 95 per cent of all stress related claims lodged in 2002-03 — Justice, Education and Training, Human Services — reflected this general trend, although the number of claims at Victoria Police declined by 0.3 per cent.142

Another general trend emerging, although not universal, was that the average cost of stress related claims had declined.143 In some cases, the decline was significant, with the Department of Human Services reporting that the cost of stress related claims per equivalent full-time employee declined by 32 per cent, despite an increase in the incidence of claims.144
The Committee noted that the decline in the cost of stress related claims was sometimes attributed to a more active return to work program and working with insurers to investigate fully the circumstances leading to the lodgement of stress related claims.

While the Committee welcomes an early return to work for all injured employees, the Committee is concerned that the strategies adopted may not be sustainable if the underlying issues that cause stress are not addressed. The Committee believes that strategies aimed at an early return to work need to be evaluated to ensure they will lead to sustainable results over the longer term.

The Committee recommends that:

**Recommendation 13:** The Office of Public Employment conduct or arrange for the Victorian WorkCover Authority to undertake an evaluation of departmental strategies to promote early return to work following stress related claims to ensure that the strategies are sustainable over the long term.

The Committee noted that the Department of Justice is currently undertaking a risk management program which will include the identification of factors associated with the existence of stress claims. The Committee received a response from the Department of Justice which identified several factors that contribute to stress related claims in workplaces. These factors included:

- perceived workload issues;
- claims arising out of or associated with complaints investigations and unsatisfactory performance procedures; and
- conflict with colleagues; and conflict with clients/customers.

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145 Department of Justice response, received 19 December 2003, to the Committee's 2002-03 Budget outcomes questionnaire, p.14

146 Departmental responses to the Committee’s 2002–03 Budget outcomes questionnaire: Department of Education and Training (received 17 February 2004, p.10); Department of Human Services (received 11 February 2004, p.10); Department of Infrastructure (received 13 January 2004, p.13); Department of Premier and Cabinet (received 6 February 2004, p.11); Department of Sustainability and Environment (received 4 February 2004, pp.11–12)
The Department of Human Services advised the Committee that an independent analysis of their stress related claims had identified that 42 per cent arose directly from client-related issues (e.g. abusive behaviour, physical assault) and that 37 per cent of claims arose out of interactions between staff, staff and their managers/supervisors or other ‘environmental’ issues. The remaining stress claims arose out of unclear circumstances (21 per cent).  

The Committee welcomes efforts by Departments to better understand the factors that influence the incidence of stress related claims. While these efforts should contribute to reducing both the incidence and cost of future stress related claims, the Committee believes that the potential benefits of reducing the direct costs ($14.7 million in 2002-03) and other unquantified indirect costs of occupational stress, warrants a closer examination across the Victorian Public Sector.

The Committee recommends that:

**Recommendation 14:** The Office of Public Employment or WorkCover conduct further research into the factors contributing to stress related workers compensation claims in the Victorian Public Sector.

### 2.4.8 Performance bonuses

The Committee requested information on performance bonus payments made in 2002–03. A summary of the responses for executive officer performance bonuses is shown at Exhibit 2.12. Specific commentary on performance bonuses is in the respective departmental chapters.
### Exhibit 2.12

**Executive Officer Performance Bonuses by Departments**

(Per cent)

<table>
<thead>
<tr>
<th>Department</th>
<th>Executive officer classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parliamentary Departments (a)</td>
<td>EO1</td>
</tr>
<tr>
<td>Victorian Auditor-General’s Office (b)</td>
<td>nil</td>
</tr>
<tr>
<td>Department of Education and Training</td>
<td>nil</td>
</tr>
<tr>
<td>Department of Human Services</td>
<td>100.0</td>
</tr>
<tr>
<td>Department of Infrastructure</td>
<td>81.0</td>
</tr>
<tr>
<td>Department of Innovation, Industry and Regional Development (d)</td>
<td>91.7</td>
</tr>
<tr>
<td>Department of Justice</td>
<td>85.7</td>
</tr>
<tr>
<td>Department of Premier and Cabinet</td>
<td>25.0</td>
</tr>
<tr>
<td>Department of Primary Industries (f)</td>
<td>nil</td>
</tr>
<tr>
<td>Department of Sustainability and Environment</td>
<td>87.0</td>
</tr>
<tr>
<td>Department of Treasury and Finance</td>
<td>100.0</td>
</tr>
<tr>
<td>Department for Victorian Communities</td>
<td>(h)</td>
</tr>
</tbody>
</table>

**Notes:**
- nil — no performance bonus payment was made
- (a) Verbal advice from Parliamentary Departments on 19 March 2004
- (b) The Victorian Auditor-General’s Office advised that all of its executive officers are in the EO2 and EO3 categories, and that the Auditor-General is a parliamentary appointee and does not receive performance bonuses
- (c) Department of Infrastructure advised that this figure is an aggregation of executive officers in the EO1 and EO2 classifications
- (d) Department of Innovation, Industry and Regional Development advised that this figure is an aggregation of executive officers in the EO1 and EO2 classifications
- (e) Department of Justice advised that that this figure is an aggregation of executive officers in the EO1 and EO2 classifications
- (f) Department of Primary Industries advised that there were no performance bonus paid to executive officers in the period from the Department’s creation on 5 December 2002 to 30 June 2003
- (g) Department of Sustainability and Environment advised that that this figure is an aggregation of executive officers in the EO1, EO2 and EO3 classifications
- (h) Department for Victorian Communities advised that its predecessor, the Department of Tourism, Sport and the Commonwealth Games paid performance bonuses to three executive staff during 2002—03. The Committee noted that the percentage of executive officers which received performance bonuses by classification was not provided in the response

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148 Victorian Auditor-General’s Office response, received 23 March 2004, to the Committee’s follow-up questions
149 Department of Infrastructure response, received 13 January 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.11
150 Department of Innovation, Industry and Regional Development response, received 5 January 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.8
151 Department of Justice response, received 24 March 2004, to the Committee’s follow-up questions
152 Department of Primary Industries response, received 25 February 2004, to the Committee’s follow-up questions
153 Department of Sustainability and Environment response, received 4 February 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.8
154 Department for Victorian Communities response, received 31 December 2003, to the Committee’s 2002–03 Budget outcomes questionnaire, p.8
The Executive Employment Handbook states that eligibility for bonuses is to be determined under a four point rating system. Only officers assessed at the two upper ratings are entitled to a bonus. The rating scales are:\(^{155}\)

- rating 4 or ‘exceptional’ – exceeds the requirements of all criteria and far exceeds expectations on the most critical areas;
- rating 3 or ‘superior’ – exceeds the requirements of most criteria;
- rating 2 or ‘competent’ – meets all or most criteria. No bonus; and
- rating 1 or ‘improvement required’ – no bonus.

Bonuses are paid based on a percentage of the total remuneration packages of individual executives. At rating 3 the executive officer is entitled to a bonus ranging between 0 and 10 per cent, while at rating 4 the bonus range is between 11 and 20 per cent. Bonuses in excess of 15 per cent are required to be noted by the Premier.\(^{156}\)

The Committee was surprised that in most Departments more than 80 per cent of executive officers received bonuses (see Exhibit 2.12), even though Government policy states bonuses are only to be paid where performance is exceptional or substantially above the performance criteria. The Committee also noted that in some Departments, all executive officers at a particular classification were paid performance bonuses, such as the Department of Human Services and the Department of Treasury and Finance where 100 per cent of executive officers at the EO1 classification were paid performance bonuses.


\(^{156}\) Ibid
The Committee was also surprised at the inconsistency in the performance bonuses paid within the same executive officer classification among the Departments. For example, in the EO2 classification the percentage of executive officers who received performance bonuses ranged from 76 per cent to 100 per cent (see Exhibit 2.12). Similarly, at the EO3 classification level the range was 67 per cent to 95 per cent.

The Committee acknowledges that Departments may have extended the performance assessment rating scales to provide a finer definition of performance levels for their respective departments, than those set out in the Executive Employment Handbook. Nevertheless, the Committee believes that Departments must adhere to the threshold definition i.e. exceeds the requirements of most criteria, for performance bonuses specified in the Executive Employment Handbook.

The Committee stresses the importance of having consistency in the manner in which performance bonuses are assessed and applied across the Victorian Public Sector.

The Committee recommends that:

Recommendation 15: The Department of Premier and Cabinet conduct a review of the application of executive officer performance bonuses in the Victorian Public Sector with a view to ensuring that the eligibility for bonuses is consistently applied across the public sector.

The Committee was advised by the Department of Premier and Cabinet that during 2002–03 it had completed a biennial review of the executive remuneration and structure. The review report included recommendations on executive remuneration range and annual performance bonuses. The Committee understands that, as at the date of preparing this report, no action has been taken on recommendations contained in the report.
The Committee recommends that:

**Recommendation 16:** The Department of Premier and Cabinet issue additional directions that:

(a) reinforce the application of performance bonus policy as set out in the *Executive Employment Handbook*; and

(b) where Departments vary the performance assessment ratings for their senior executives, the criteria applied should be disclosed in the departmental annual reports.
Report on the 2002-03 Budget Outcomes
Chapter 3: Parliamentary Departments

Key Findings of the Committee:

3.1 In 2002–03, the Parliamentary Departments had expenditure of $89.7 million compared to the original Budget of $78.7 million. The variation is largely due to an increase of $9.5 million in employer contributions to the Members’ superannuation fund.

3.2 The 2002 State election had an impact on the performance of the Joint Services Department with some performance measures not achieved.

3.1 Overview

The Parliament has five Departments whose primary functions are to service the two Houses of Parliament and the Parliamentary Committees, as well as to provide administrative support for Members and their electorate offices.

Each Department is categorised as an output group in the Budget Papers under the responsibility of the Presiding Officers — the President or the Speaker.

3.2 Financial performance

The 2002–03 Budget provided $78.7 million for the six output groups including the Joint Investigatory Committees. An additional $15.3 million was transferred from special appropriations, Treasurer’s advances and transfers to make a revised Budget of $94 million.

Exhibit 3.1 shows the financial performance of the Parliamentary Departments for 2002–03.
## Exhibit 3.1

### Parliamentary Departments

Statement of Financial Performance 2002—03

<table>
<thead>
<tr>
<th>Statement of Financial Performance</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 1-2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002–03</td>
<td>2002–03</td>
<td>Variation</td>
</tr>
<tr>
<td></td>
<td>Budget ($ million)</td>
<td>Actual ($ million)</td>
<td>a ($ million)</td>
</tr>
<tr>
<td><strong>Revenue from ordinary activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output appropriations</td>
<td>60.435</td>
<td>59.329</td>
<td>1.106</td>
</tr>
<tr>
<td>Special appropriations</td>
<td>32.591</td>
<td>31.205</td>
<td>1.386</td>
</tr>
<tr>
<td>Resources received free of charge or for nominal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>consideration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of goods and services</td>
<td>0.0</td>
<td>1.626</td>
<td>-1.626</td>
</tr>
<tr>
<td>Commonwealth grants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fines and fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other revenue and revenue from other parties</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>93.026</td>
<td>92.160</td>
<td>0.866</td>
</tr>
<tr>
<td><strong>Expenses from ordinary activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>60.970</td>
<td>59.387</td>
<td>1.583</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>3.700</td>
<td>3.496</td>
<td>0.204</td>
</tr>
<tr>
<td>Resources provided free of charge or for nominal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>consideration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and other payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital asset charge</td>
<td>0.673</td>
<td>0.673</td>
<td>0.0</td>
</tr>
<tr>
<td>Supplies and services</td>
<td>27.683</td>
<td>26.111</td>
<td>1.572</td>
</tr>
<tr>
<td>Other expenses</td>
<td>0.0</td>
<td>1.895</td>
<td>-1.895</td>
</tr>
<tr>
<td>Borrowing costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>93.026</td>
<td>91.563</td>
<td>1.463</td>
</tr>
<tr>
<td><strong>Net result for the reporting period</strong></td>
<td>0.0</td>
<td>0.597</td>
<td>-0.597</td>
</tr>
<tr>
<td>Increase in asset revaluation reserve</td>
<td>0.0</td>
<td>2.957</td>
<td>-2.957</td>
</tr>
</tbody>
</table>

**Notes:**
  (NB — figures have been adjusted to exclude the Budget for the Victorian Auditor-General’s Office).
- For column 2, figures have been extracted from the Joint Services Department’s 2002–03 Annual Report, Parliament of Victoria, Financial Report, 30 June 2003
- The amounts reflected as sale of goods and services and other expenses refer to the income and costs respectively of the parliamentary dining rooms.
  - A negative variance indicates a Budget surplus for the particular line item

The Parliament pays an annual subsidy to the parliamentary dining rooms which is provided from the Budget of the Joint Services
Department.\textsuperscript{160} The subsidy paid to the parliamentary dining rooms for 2002–03 was $200,000. Total expenses for the dining rooms were around $1.9 million; and revenue was approximately $1.6 million representing a loss of $269,058 which was partly offset by the subsidy. For the previous year total expenses were around $1.6 million and revenue was around $1.4 million representing a loss of $175,260.\textsuperscript{161}

The Committee acknowledges that the proroguing of the Parliament in November 2002 prior to the State election, and the 55th Parliament not meeting until March 2003, contributed to a reduction in patronage and revenue.

The Committee is also aware that in an endeavour to increase revenue and reduce costs, a number of initiatives have been undertaken. These initiatives include an active marketing campaign to attract more people and organisations to use the catering facilities at Parliament House and a restructure of the management and staffing of the dining rooms that will have its full impact in 2004–05. The Committee welcomes the assurance of the Speaker that the level of subsidy is being addressed and will be reduced by $50,000 in 2003-04.\textsuperscript{162}

The Committee noted the cost of employee benefits for 2002–03 increased by $12 million over the previous year.\textsuperscript{163} The Committee was advised that this was largely due to an increase of $9.5 million in employer contributions to the Members’ superannuation fund.\textsuperscript{164}

Expenses incurred under Supplies and Services show an increase of approximately $5 million which covers the cost of consultants and contractors providing assistance with information technology; communication expenses; increases in electorate office expenses and equipment rental.\textsuperscript{165}

Much of this expenditure can be attributed to additional expenses incurred as a result of the implementation of the Parlynet 2002 Project, the Parliament’s information technology system.

\textsuperscript{160} Verbal communication from the Finance Manager of the Joint Services Department, 4 March 2004
\textsuperscript{161} Joint Services Department, 2002-03 Annual Report, Financial Report, p.2
\textsuperscript{162} Hon J Maddigan, MP; Speaker, transcript of evidence, Estimates hearings, 24 June 2003 p.605
\textsuperscript{163} Joint Services Department, 2002-03 Annual Report, Financial Report, p.2
\textsuperscript{164} Parliamentary Departments’ response, received 23 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire
\textsuperscript{165} Joint Services Department, 2002-03 Annual Report Financial Report, p.24
Exhibit 3.2

Parliamentary Departments
Statement of Financial Position 2002—03

<table>
<thead>
<tr>
<th>Statement of Financial Position</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002–03 Budget</td>
<td>2002–03 Actual</td>
<td>Variation</td>
</tr>
<tr>
<td></td>
<td>($ million)</td>
<td>($ million)</td>
<td>(a) ($ million)</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>-0.4</td>
<td>-0.8</td>
<td>-0.4</td>
</tr>
<tr>
<td>Receivables</td>
<td>0.6</td>
<td>1.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Inventories</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Prepayments</td>
<td>0.3</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Total current assets</td>
<td>0.6</td>
<td>1.4</td>
<td>0.8</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>8.0</td>
<td>7.8</td>
<td>-0.2</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>183.8</td>
<td>186.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>191.8</td>
<td>194.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Total assets</td>
<td>192.4</td>
<td>195.8</td>
<td>3.4</td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>0.6</td>
<td>0.9</td>
<td>0.3</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>1.9</td>
<td>1.8</td>
<td>-0.1</td>
</tr>
<tr>
<td>Other</td>
<td>0.1</td>
<td>-</td>
<td>-0.1</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>2.6</td>
<td>2.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>2.1</td>
<td>2.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>2.1</td>
<td>2.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>4.7</td>
<td>5.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Net assets</td>
<td>187.7</td>
<td>190.8</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Source: Parliamentary Departments response, received 23 December 2003, to the Committee’s 2004—05 Budget outcomes questionnaire.

Note: (a) A negative variance indicates a Budget surplus for the particular line item.

At 30 June 2003 the Parliamentary Departments controlled assets valued at around $196 million. This amount compares with approximately $192 million in the previous year.\(^\text{166}\)

There were five instances of more than 10 per cent variation from Budgeted to actual expenditure. In its response to the Committee’s questionnaire, the Joint Services Department explained that the 100 per cent decrease in cash assets was due to an increase in unpresented cheques resulting from payments to creditors at the end of the financial year.\(^\text{167}\)

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\(^{166}\) Joint Services Department, 2002–03 Annual Report, p.18
\(^{167}\) Parliamentary Departments’ response, received 23 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.4
The increase in receivables was due to an increase in the balance held by the State Administrative Unit (SAU) by the Department of Treasury and Finance; an increase in prepayments was due to an increase in insurance prepayment for the following financial year; and variations in payables and other were due to minor increases in creditors at the end of the financial year.

The Committee was advised that three voluntary departure packages or targeted separation packages were taken up by staff in 2002–03 and these packages were funded from within the relevant Department’s salary Budgets.

The total value of bonuses paid to staff in that year was $120,580 and the highest percentage of staff receiving bonuses was at VPS4 level. Bonuses paid to staff across each classification level and the percentage of staff within each classification level were as follows:

### Exhibit 3.3

<table>
<thead>
<tr>
<th>VPS classification</th>
<th>Amount paid $</th>
<th>Percentage of staff receiving a bonus</th>
</tr>
</thead>
<tbody>
<tr>
<td>VPS1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>VPS2</td>
<td>15,454</td>
<td>6.8</td>
</tr>
<tr>
<td>VPS3</td>
<td>21,593</td>
<td>12.1</td>
</tr>
<tr>
<td>VPS4</td>
<td>27,200</td>
<td>31.4</td>
</tr>
<tr>
<td>VPS5</td>
<td>43,083</td>
<td>23.5</td>
</tr>
<tr>
<td>No classification (electorate officer or casual staff)</td>
<td>13,250</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td><strong>120,580</strong></td>
<td></td>
</tr>
</tbody>
</table>

The Committee is aware that no performance pay was provided in 2002–03, in anticipation of the new staff classification system being introduced. The Committee noted that 31 per cent of staff at VPS4 level and 23 per cent at VPS5 level were awarded a performance bonus. This is an unusually high rate of performance bonus payments which should be given only in recognition of exceptional performance measured against individual work and personal development plans.

### 3.3 Output group expenditure analysis

Actual expenditure by the Parliamentary Departments for 2002–03 was $89.7 million, approximately $4.3 million less than the revised Budget.
The most significant underspending of the revised Budget was in the Departments of the Legislative Council ($700,000) and the Legislative Assembly ($2.5 million).

Exhibit 3.4 details the 2002–03 financial performance of the Parliamentary Departments by output group:

Exhibit 3.4

<table>
<thead>
<tr>
<th>Parliamentary Department (or output)</th>
<th>2002–03 Budget ($ million)</th>
<th>2002–03 Revised Budget(a) ($ million)</th>
<th>2002–03 Actual ($ million)</th>
<th>Variation ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative Council</td>
<td>9.6</td>
<td>13.3</td>
<td>12.6</td>
<td>0.7</td>
</tr>
<tr>
<td>Legislative Assembly</td>
<td>20.2</td>
<td>27.1</td>
<td>24.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Parliamentary Library</td>
<td>2.0</td>
<td>2.4</td>
<td>2.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Parliamentary Debates</td>
<td>2.4</td>
<td>2.5</td>
<td>2.4</td>
<td>0.1</td>
</tr>
<tr>
<td>Joint Services (excl dining rooms)</td>
<td>40.6</td>
<td>44.6</td>
<td>43.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Parliamentary Investigatory Committees</td>
<td>3.9</td>
<td>4.1</td>
<td>3.9</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>78.7</strong></td>
<td><strong>94.0</strong></td>
<td><strong>89.7</strong></td>
<td><strong>4.3</strong></td>
</tr>
</tbody>
</table>

Notes:  
(a) This column takes into account additional funding provided by special appropriations, Treasurer's advances and transfers  
(b) The above statement does not include the Auditor-General's Office, an output of the Parliament, which is subject to separate review by the Committee and therefore not referred to in this report

Source:  
Budget Paper No. 3, 2003–04, p.423  
Parliamentary Departments response, received 23 December 2003, to the Committee’s 2002–03 Budget outcomes questionnaire, p.8

The most significant element of the additional funding was an amount of $9.5 million across the Departments of the Legislative Assembly and the Legislative Council for additional employer contributions to Members' superannuation. The Committee was advised that pursuant to sub-sections 13(2) and 13(3) of the Parliamentary Salaries and Superannuation Act 1968, an actuarial investigation occurs every three years to determine the amount of money required to be paid to the parliamentary contributory superannuation fund so that the fund can meet its liabilities in the ensuing three years.
The fund’s actuary recommended that payments to the fund be increased from $6 million per annum to $15.5 million per annum effective from the 2002–03 financial year. The parliamentary contributory superannuation fund accepted the actuary’s recommendation which was tabled in Parliament on 20 March 2003.\(^{169}\)

Increases in the salaries and allowances of Members and electorate officers — as a result of changes to the federal award — required a further $1.5 million while increases in the salaries of parliamentary officers required an additional $900,000. Additional funding for the associated costs of payroll tax, WorkCover premiums and fringe benefits tax and superannuation required a total of $778,000 for the two Departments of the Legislative Assembly and the Legislative Council.\(^{170}\)

### 3.4 Performance information

The Committee was advised that the State election, held in late November 2002, and its results had considerable impact on the capacity of the Parliamentary Departments to deliver on some of the performance targets for quantity, quality and timeliness of service.

*The Parliamentary Departments were affected by the decision to call the election as the November sitting month was cancelled and considerable planning and administration was required to undertake the necessary post-election activities i.e. vacating electorate offices, stocktakcs and managing electorate officer staff turnover.*\(^{171}\)

The results of the election required some electorate offices to be closed and others to be established. Following the election a total of 38 Members of Parliament either retired or lost their seats; 5 Members were successful in being elected to different electorates; and 85 electorate officers either retired or lost employment.\(^{172}\) Further, as a result of the redistribution of the electorate boundaries for the 55th Parliament, 12 members received funding to relocate their offices.\(^{173}\)

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169 Parliament Departments’ response by email, received 24 February 2004, to the Committee’s follow-up questions

170 Parliament Departments’ response, received 23 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire

171 Ibid

172 Joint Services Department, 2002–03 Annual Report, p.8

173 Parliament Departments’ response, received June 2003, to the Committee’s 2002–03 Estimates Questionnaire, p.3
These changes affected the achievement of some stated objectives such as improving the management of electorate office property and the training of new Members and electorate office staff.

Indirectly, the State election also resulted in delays in a number of programs including: 174

- a program for the reward and recognition of staff who demonstrate excellence in service delivery or creativity, initiative and innovation in the workplace;
- a program for the assessment and review of management;
- the development of a performance review format for casual workers;
- a program for professional development of electorate officers; and
- a program of professional recruitment.

Problems with the introduction of Parlynet 2002 impacted on the achievement of a number of objectives across the Parliamentary Departments including the implementation of the strategic plan for information technology; the upgrade of security within Parliament House; the development and implementation of a communications strategy; and the development of service level agreements specifically between the Helpdesk and other organisational units such as catering, the library, the Department of Parliamentary Debates, gardens and human resources. 175 The Committee hopes that these objectives will receive priority for implementation in 2003-04.

Part of the funding shortfall for the Parlynet 2002 Project was met by transferring an amount of $1.349 million from asset funding to output funding. 176 As noted in the Committee’s Report on the 2003–04 Budget Estimates, this amount was sourced from depreciation equivalents not yet spent. 177

174 Joint Services Department, 2002–03 Business Plan, pp.12–19
175 These problems are discussed in the report of the Public Accounts and Estimates Committee’s, Report on the 2003–04 Budget Estimates, pp.119-22
176 Parliamentary Departments’ response, received 23 December 2003, to the Committee’s 2002–03 Outcomes Questionnaire, p.14
177 Public Accounts and Estimates Committee, Report on the 2003–04 Budget Estimates, September 2003, p.120
Parliamentary Departments undertook a client satisfaction survey in March 2002 and a report on the results of the survey was made available via the Parliament’s intranet in September 2002. The Committee looks forward to reviewing the detailed results of the survey in the Departments’ annual reports.

3.5 Performance measures

The Committee encourages regular review of performance measures and targets to ensure their relevance and appropriateness in line with developments or changes in output group activities.

As noted in the Committee’s Report on the 2002–03 Budget Estimates, the Parliamentary Departments introduced 41 new performance measures and discontinued 59 measures from the previous year. This was the result of a review of the Parliamentary Departments’ corporate plan which recognised that the Departments had no control over many of the existing performance measures as they were dependent on the Government’s legislative program.

The Parliamentary Departments’ Corporate Plan 2002–05 states that their primary goal is to provide quality advice, support and information services to Members of Parliament and other clients. The plan identifies 11 performance measures with 13 corresponding key targets. The Committee supports the adoption of performance measures and targets in the corporate plan. However, the extent to which some of these targets are measurable is questionable, for example, goal No. 3 records as a key target: implement the Parliament’s 2002 IT strategy. The performance measure is: information technology efficiency and effectiveness. This implies that implementation of the strategy will result in information technology efficiency and effectiveness but does not record specific measures or ways of measuring efficiency or effectiveness.

Performance measures should measure quantity, quality, timeliness and cost and not be stated as a desired outcome as illustrated in the above example. This applies to several measures contained in the Parliamentary Departments’ corporate plan.

178 Parliamentary Departments’ 2002–05 Corporate Plan, p.7
The Committee recommends that:

**Recommendation 17:** The Parliamentary Departments ensure the key targets identified in business and corporate plans are able to be measured so as to provide meaningful information on performance.

### 3.5.1 Department of the Legislative Council and Department of the Legislative Assembly

At the end of June 2002, the Departments of the Legislative Council and the Legislative Assembly phased out a number of inappropriate measures and introduced several new measures. The Departments now share a total of eight performance measures based on the demands of parliamentary sittings and the needs of Members and visitors: two quantity measures; four quality measures; and two timeliness measures.

However, the measures identified in the corporate plan are not the performance measures identified in Budget Paper No. 3. On the other hand, performance measures in Budget Paper No. 3 are not detailed in the annual reports of either Department and do not match those of the corporate plan. In response to a query in the Committee’s questionnaire the Departments advised that:

> The Legislative Council and the Legislative Assembly undertook to present their annual reports for 2002–03 as an Activities Report directly against their business plans for 2002–03. This approach resulted in a more relevant and readable document for Members of Parliament and staff as to the achievements of both Departments in the financial year under review.  

Performance measures are intended to reflect whether the Department’s objectives are being achieved. The decision of the two Departments to apply different performance measures in their annual reports to those recorded in Budget Papers — on the grounds that they are more relevant — reflects on the quality of information provided to Parliament when considering Budget estimates. The Departments need to consider the appropriateness of the performance measures used in their annual reports and consistency with those in the Budget Papers.

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179 Parliamentary Departments’ response, received 23 December 2003, to the Committee’s 2002–03 Budget outcomes questionnaire, p.11
The Committee recommends that:

**Recommendation 18**: The Parliamentary Departments provide detailed information of achievements against targets in their annual reports in a format consistent with the key performance measures recorded in the Budget Papers.

### 3.5.2 Parliamentary Library

New targets were introduced by the Parliamentary Library based on growth trends in the use of online library services:

- to reflect the changing nature of the library’s services in an online environment;
- to rationalise the number of measures by dropping some of those relating to highly specific and relatively minor services; and
- to provide appropriate measures for quantity, quality and timeliness for each of the library’s four output groups.

The Committee is pleased to note the ongoing success and growth in use of the Parliamentary Library through its intranet site and in-person visits. The library reported that use of the Parliament’s overall intranet has increased by 8 per cent since 1999 while use of the library’s intranet site has increased over 200 per cent in the same period.

Exhibit 3.5 shows that use of different aspects of the library’s digital services have exceeded targets.
Where achievements significantly varied from 2002–03 targets by 10 per cent the Parliamentary Library provided the following explanations:

- the figure for ‘Items physically processed for retrieval’ refers to print material only which is diminishing as the amount of electronic content continues to rise. The actual number of items physically processed exceeded the target that had been reduced by 180,000 from the previous year in recognition of the increasing use of technology.\textsuperscript{180}

- the number of visitor sessions to the library intranet site exceeded the target by approximately 17 per cent as a result of consistent growth.\textsuperscript{181}

### 3.5.3 Department of Parliamentary Debates

The Department of Parliamentary Debates recently reviewed performance measures and the Department reports against these new performance measures in Budget Paper No. 3 and its annual report.

The annual report of the Department of Parliamentary Debates states that it has a single output against which it reports performance: \textit{Hansard}, sessional indexes and Committee transcripts. The Department measures its performance against indicators of quality and timeliness of transcript production, and quantity and quality of audio transmission.\textsuperscript{182}

\textsuperscript{180} Ibid, p10
\textsuperscript{181} Ibid
\textsuperscript{182} Department of Parliamentary Debates, 2002–03 Annual Report, p.11
The Committee noted the performance measures in quantity, quality and timeliness were met or exceeded. However, the Committee encourages the Department to develop performance measures relating to unit cost, for example, the direct and full cost per hour of transcript by category for the Legislative Assembly, Legislative Council and the Committees. Analysis of this information over time would assist with assessing the productivity of the Department.

3.5.4 Joint Services Department

The Joint Services Department was involved in two main projects in 2002–03: the Parlynet 2002 Project; and the organisational changes that resulted from the State election.

Funding of $2.8 million was provided in the 2002–03 Budget to enable Parliament to upgrade to a standard operating environment (SOE) consistent and compatible with Government Departments and Agencies.\(^{183}\) The new IT strategy was also designed to upgrade software applications that would be supported by software manufacturers for the following three years; and ensure the maintenance of appropriate system security.

In an attempt to complete the rollout before the 30 November election, introduction of the new system was accelerated and in November 2002, the Parlynet 2002 Project was introduced to the parliamentary precinct and electorate offices. However, the short timeframe meant that a full testing regime could not be implemented and the project encountered significant problems. This is acknowledged in the annual report of the Joint Services Department:

\[
\text{Since the end of the contract for the Parlynet 2002 Project, the IT unit in conjunction with the successful tenderer CSM and various other software providers has been working to identify the cause of and remedy the poor performance problems. While progress in remedying the problems has been slow, the performance issues are being addressed and there is slow but positive improvement. In hindsight the Parlynet 2002 Project took on too much in too short a time frame.}^{184}\]

At the request of the Presiding Officers, the project was reviewed by the Auditor-General and his report was tabled in Parliament in September 2003.\(^{185}\) The report was highly critical of the structure governing the

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\(^{183}\) Budget Paper No 2, 2002–03 Budget Statement, p.214

\(^{184}\) Joint Services Department, 2002–03 Annual Report, p.8

\(^{185}\) Victorian Auditor-General’s Office, Report on Parliament’s information technology upgrade, September 2003
project including definition of roles and responsibilities, documentation, scoping, policy-making processes and management of the project.

The Auditor-General’s report states:

We believe that the unsatisfactory outcomes of the Parlynet 2002 Project were not only a result of poor project management; they were also a product of wider issues related to the management of Parliament’s administrative services. For example, the management arrangements and responsibilities for the upgrade were unclear; the Joint Services Department lacks strategies and policies to govern its IT and other functions, and IT staff need training to enable them to effectively and efficiently manage the new technologies introduced. There is also a need to give greater attention to risk management and the development of policies and procedures to enable effective asset and financial management.186

The Auditor-General indicated that the funding shortfall for the Parlynet 2002 Project was just over $3 million and states that:

The overspending on the IT upgrade caused major Budgetary problems for Parliament and so, in May 2003, the Speaker applied for a Treasurer’s Advance of $3.024 million to meet the shortfall. …

The Treasurer subsequently approved the application of funds already held within parliamentary funds as follows:

- $2.524 million from the Consolidated Fund, made up of $1.175 million in accumulated surpluses and $1.349 million in depreciation equivalent funding i.e. funds set aside within the Consolidated Fund, in previous periods, for funding asset replacement; and

- $500 000 from the Commonwealth Parliament Association grant account, i.e. an account established to assist the professional development of Members of Parliament. Because of the November 2002 State election and restrictions on travel by Parliamentarians, some of the funding provided for professional development in 2002–03 was unused.187

It was clear to the Committee that the implementation of the contract was mishandled and it is concerned that the problems identified in the report have not yet been satisfactorily resolved.

186 Ibid, p.3
187 Ibid, p.26
A request by the Presiding Officers for the Auditor-General to undertake a follow-up review would assure the Parliament and the public that the necessary action has been taken to address the problems and provide the necessary evidence that the problems have been addressed.

The Committee recommends that:

**Recommendation 19:** The Presiding Officers urgently review and rectify the fundamental weaknesses in structure, management and risk strategies identified by the Auditor-General in his report on Parliament’s information technology upgrade.

### 3.6 Benchmarks

Benchmarking provides a standard against which the practice and performance of Departments can be compared. Parliament is a unique workplace in Victoria so comparison with other similar institutions will need to take place with Parliaments in other states with a similar parliamentary structure. In its response to the Committee’s 2002–03 Budget Estimates questionnaire the Department informed the Committee about the absence of national benchmarks for the delivery by output groups:

*Although the Victorian Parliament is aware of some of the measures used by other Australian Parliaments, in most cases it has not been able to make meaningful comparisons due to the differences in services, costing, accounting and how outputs are measured. The Parliament believes it has developed suitable measures to monitor its performance in ways relevant to the delivery of the services it provides.*

188

Despite this view the Committee reiterates its suggestion that the Parliamentary Departments investigate the use and application of benchmarks from other parliamentary jurisdictions so it can develop more meaningful performance information.

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188 Parliamentary Departments’ response, received June 2003, to the Committee’s 2002–03 Budget estimates questionnaire, p.6
The Committee recommends that:

Recommendation 20: The Parliamentary Departments investigate the use and application of benchmarking to develop performance measures and targets in order to enhance service delivery across the various output groups.

3.7 Status of major initiatives

3.7.1 Provision of human resource management system for Parliament (Empower)

Funding of $100,000 was provided in the 2002–03 Budget to allow Parliament to improve its human resource system and to optimise the use of technology-based solutions.\(^{189}\)

The Joint Services Department’s annual report advises that stage 1 of the system was implemented in the latter half of 2001 and stage 2 was successfully implemented in the latter half of 2002.\(^{190}\) The third and final stage of the system, a self-service facility, is scheduled to occur by the end of the 2003–04 financial year. This will enable Members of Parliament, electorate officers and parliamentary officers to view their leave and payroll details online and to amend selected personal information and applications for leave.

The Committee acknowledges the positive efforts being made to improve human resource management within the Parliament.

3.7.2 Complete refit of 157 Spring Street

A 10-year lease, with a 6-year extension, was secured through the Department of Treasury and Finance for five floors, including the basement, of 157 Spring Street. During the 2001–02 Budget Estimates hearings, the then Speaker, Hon. A Andrianopolous, advised that information technology operations had transferred to 157 Spring Street and refurbishment was expected to be completed by November 2001 when the remaining administrative staff of the Department of Joint Services would transfer their operations to the first and second floors of the building.

\(^{189}\) Budget Paper No 2, 2002–03 Budget Statement, p.214
\(^{190}\) Joint Services Department, 2002–03 Annual Report, p.14
In November 2002, the ground floor shopfront of 157 Spring Street was opened by the Presiding Officers. It was planned that two Parliamentary Committees would occupy the third floor.

In relation to occupancy of the basement, the Committee asked about any plans for the refurbishment of the basement of 157 Spring Street, as reported to the Committee in correspondence from the Clerk of the Parliaments in August 2002.

The Committee was advised that:

*The plan for the basement at 157 Spring Street is to use it for storage space. Parliament has received several design submissions and cost estimates for the installation of secure storage shelves and compactus units. Other areas in the basement will be set aside to store both electorate office and Parliament House furniture. It is intended that a contract be entered into within a matter of weeks and construction be completed by end of June.*

In relation to occupancy of the fourth floor, the Department of Joint Services responded that the plan currently under consideration is for the Opposition parties to occupy the fourth floor which would mean ‘an upgrade to the Opposition’s offices and improvements to the working conditions of Opposition staffers’. The Committee was advised that the Parliament would not seek any additional funds to fit out the fourth floor of 157 Spring Street.

The Committee is concerned that the building remained unoccupied for some time and that an opportunity for the Department to use the space or recoup rent during this period has been lost.

The Committee notes that all floors of 157 Spring Street are now occupied but that a firm commitment on the use of the basement remains outstanding.

The Committee recommends that:

**Recommendation 21:** Action be taken by the Presiding Officers to resolve the use of the basement at 157 Spring Street.

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191 Correspondence from the Director, Corporate Ser
192 Parliamentary Departments’ response, received 23 December 2003, to the Committee’s 2002-03 outcomes questionnaire, p.19
Report on the 2002-03 Budget Outcomes
Chapter 4: Victorian Auditor-General’s Office

Key Findings of the Committee:

4.1 In 2002–03, actual expenditure by the Victorian Auditor-General’s Office (VAGO) was $23.45 million, some $560,000 below the Budget estimates. The decrease was due mainly to lower than budgeted depreciation and amortisation charges of $310,000 (28 per cent) as a result of the deferment of asset purchases.

4.2 The majority of performance measures for all outputs were either achieved or exceeded in 2002–03.

4.3 There is a need for the VAGO to develop more specific performance indicators to enable the Parliament and the community to assess how cost effectively the Office is delivering its services and to what extent the VAGO is achieving its objectives.

In 2002–03 the objective of the Victorian Auditor-General’s Office (VAGO) was to contribute to improvements in performance and enhance accountability in the Victorian public sector.\(^{193}\)

4.1 Analysis of financial statements

The 2002–03 Budget provided funding of $24 million\(^ {194}\) to the VAGO, which included an amount of $665,000 carried forward from its appropriation of the previous year.\(^ {195}\) The VAGO reported an operating surplus of $310,000 above its budgeted results (see Exhibit 4.1).

Exhibit 4.1 provides details of the total revenue and expenditure of the Auditor-General’s Office in 2002–03.

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\(^{193}\) Victorian Auditor-General’s Office, 2002–03 Annual Report, front cover


\(^{195}\) Victorian Auditor-General’s response, received 18 February 2004, to the Committee’s follow-up questions
Report on the 2002-03 Budget Outcomes

Exhibit 4.1

Victoria Auditor-General’s Office
Statement of Financial Performance 2002—03

<table>
<thead>
<tr>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002-03</td>
<td>2002-03</td>
</tr>
<tr>
<td></td>
<td>Budget</td>
<td>Actual</td>
</tr>
<tr>
<td></td>
<td>($ million)</td>
<td>($ million)</td>
</tr>
<tr>
<td>Revenue from ordinary activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output appropriations (a)</td>
<td>23.77</td>
<td>23.38</td>
</tr>
<tr>
<td>Special appropriations</td>
<td>0.23</td>
<td>0.23</td>
</tr>
<tr>
<td>Resources received free of charge or for nominal consideration</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td>Other revenue and revenue from other parties</td>
<td>0.01</td>
<td>0.13</td>
</tr>
<tr>
<td>Total revenue from ordinary activities</td>
<td>24.01</td>
<td>23.76</td>
</tr>
<tr>
<td>Expenses from ordinary activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>11.26</td>
<td>10.92</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>1.10</td>
<td>0.79</td>
</tr>
<tr>
<td>Capital asset charge</td>
<td>0.16</td>
<td>0.14</td>
</tr>
<tr>
<td>Supplies and services (b)</td>
<td>11.49</td>
<td>11.60</td>
</tr>
<tr>
<td>Other expenses</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total expenses from ordinary activities</td>
<td>24.01</td>
<td>23.45</td>
</tr>
<tr>
<td>Net result for the reporting period</td>
<td>0.00</td>
<td>0.31</td>
</tr>
</tbody>
</table>

Notes:
(a) The 2002—03 Budget figure for output appropriations includes an appropriation amount of $665,000 carried forward from the previous year. The 2002—03 Budget does not include an estimate of appropriation likely to be carried forward to 2003—04 (which was $395,000). 196
(b) Includes contract audits, consumables and rental expenses.
(c) A negative variance indicates a Budget surplus for the particular line item. na Undefined

Sources: Victorian Auditor-General’s Office response, received 23 December 2003, to the Committee’s 2002–03 Budget outcomes questionnaire, p.9; Victorian Auditor-General’s Office, Annual Report 2002–03, p.64; Victorian Auditor-General’s Office response, received 3 March 2004, to the Committee’s follow up questions.

The VAGO advised the Committee of the following reasons for the variances between the Budget and actual results for revenue and expenses:197

- other revenue and revenue from other parties was $130,000 as compared to the Budget of $10,000. Revenue from this source is low and of an unpredictable nature. Most of this revenue was sourced from monies recouped from staff secondments ($96,000) and the sale of VAGO reports ($24,000) which was not budgeted; and

196 Victorian Auditor-General’s Office response, received 3 March 2004, to the Committee’s follow-up question
197 Victorian Auditor-General’s Office response, received 23 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.9
• depreciation and amortisation, and capital asset charge expenses were less than originally budgeted due to a deferral of some asset purchases.

At 30 June 2003 the VAGO controlled assets valued at around $9.43 million, an increase of $1.87 million from the 2002-03 Budget (see Exhibit 4.2).

**Exhibit 4.2**

| Victorian Auditor-General’s Office
<table>
<thead>
<tr>
<th>Statement of Financial Position 2002—03</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Column 1</strong></td>
</tr>
<tr>
<td>2002-03 Budget ($ million)</td>
</tr>
<tr>
<td>Current assets</td>
</tr>
<tr>
<td>Cash assets</td>
</tr>
<tr>
<td>Other financial assets</td>
</tr>
<tr>
<td>Receivables</td>
</tr>
<tr>
<td>Prepayments</td>
</tr>
<tr>
<td>Total current assets</td>
</tr>
<tr>
<td>Non current assets</td>
</tr>
<tr>
<td>Receivables</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
</tr>
<tr>
<td>Total non current assets</td>
</tr>
<tr>
<td>Total assets</td>
</tr>
<tr>
<td>Current liabilities</td>
</tr>
<tr>
<td>Payables</td>
</tr>
<tr>
<td>Provisions</td>
</tr>
<tr>
<td>Total current liabilities</td>
</tr>
<tr>
<td>Non current liabilities</td>
</tr>
<tr>
<td>Provisions</td>
</tr>
<tr>
<td>Total non current liabilities</td>
</tr>
<tr>
<td>Total liabilities</td>
</tr>
<tr>
<td>Net assets</td>
</tr>
</tbody>
</table>

**Notes:** (a) A negative variance indicates the actual result for the particular line item was below Budget

Sources: Victorian Auditor-General’s Office response, received 23 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.9—10; Victorian Auditor-General’s Office, 2002-03 Annual Report, p.65
The major reasons for the variances between the Budget and actual results in 2002-03 related to assets and liabilities were:

- receivables – mainly due to a higher than budgeted balance in the State Administration Unit (SAU) account. This resulted from accumulated surpluses of $1.3 million relating to 2001-02 and 2002-03, and timing issues associated with asset purchases. This variance also reflects a presentation change - the amount owing from the Victorian Government and held in the SAU was reported as current and non-current assets in the 2002–03 financial statements, whereas for Budget purposes the total amount of $5.36 million was recorded as a current asset;

- prepayment — this item was less than expected, due mainly to the timing of some annual fees and payments;

- payables — the increase was due to the early close off of the accounts payable system on 20 June 2003 to facilitate data transfer to the new practice management system, which was implemented on 1 July 2003; and

- provisions — this item was less than anticipated, mainly due to the payment of leave entitlements to staff during the year.

4.1.1 Administered items statement

The value of assets and liabilities administered by the VAGO at 30 June 2003 was $3.56 million respectively. Administered assets and liabilities were approximately $560,000 higher than Budget (see Exhibit 4.3).
Exhibit 4.3

Victorian Auditor-General’s Office
Administered Items Statement199 2002—03

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002-03</td>
<td>2002-03</td>
<td>Variance</td>
</tr>
<tr>
<td></td>
<td>Budget ($ million)</td>
<td>Actual ($ million)</td>
<td>(a) ($ million)</td>
</tr>
<tr>
<td>Administered revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of goods and services</td>
<td>13.55</td>
<td>14.04</td>
<td>0.49</td>
</tr>
<tr>
<td>Other</td>
<td>0.01</td>
<td>0.01</td>
<td>0.00</td>
</tr>
<tr>
<td>Total revenue</td>
<td>13.56</td>
<td>14.05</td>
<td>0.49</td>
</tr>
<tr>
<td>Administered expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment into the Consolidated Fund</td>
<td>13.56</td>
<td>14.05</td>
<td>0.49</td>
</tr>
<tr>
<td>Total expenses</td>
<td>13.56</td>
<td>14.05</td>
<td>0.49</td>
</tr>
<tr>
<td>Revenue less expenses</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Administered assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>3.00</td>
<td>2.89</td>
<td>-0.11</td>
</tr>
<tr>
<td>Other</td>
<td>0.67</td>
<td>0.67</td>
<td>0.00</td>
</tr>
<tr>
<td>Total</td>
<td>3.00</td>
<td>3.56</td>
<td>0.56</td>
</tr>
<tr>
<td>Administered liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts owing to other departments</td>
<td>3.00</td>
<td>3.56</td>
<td>0.56</td>
</tr>
<tr>
<td>Total</td>
<td>3.00</td>
<td>3.56</td>
<td>0.56</td>
</tr>
</tbody>
</table>

Notes: (a) A negative variance indicates the actual result for the particular line item was below Budget

Sources: Victorian Auditor-General’s Office response, received 23 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.8—9; Victorian Auditor-General’s Office, 2002-03 Annual Report, p.86

The Auditor-General’s Office advised the Committee that the variance in administered assets and liabilities was due to a higher than anticipated level of audit work-in-progress at the end of the financial year.200

4.1.2 Performance bonuses

The Committee requested information on the amount of performance bonus payments made in 2002–03. The VAGO advised that a total of $162,500 (approximately $7,700 on average) was accrued in respect of bonuses earned in the 2002–03 year.201 The Committee was interested to

199 These administered resources are primarily audit fees raised from financial statement audits undertaken by VAGO (Source: Victorian Auditor-General’s Office, 2002–03 Annual Report, p.67)
200 Victorian Auditor-General’s Office response, received 23 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.11
201 Ibid, p.12
learn that all executive officers on the EO2 classification received a bonus payment, compared with 84 per cent of executive officers on the EO3 classification.202 The Auditor-General’s Office advised the Committee that eligibility for bonus payments was assessed against VAGO’s key performance indicators.203

4.1.3 Trust fund

VAGO informed the Committee that it controlled one trust account which was established for performance payments.204 As at 30 June 2003 the balance was $72,000.205 The VAGO advised that the balance of $72,000 was absorbed into the performance bonus payments made in 2003–04, and that the trust account has been made redundant.206

4.2 Output group expenditure analysis

The VAGO output structure in 2002–03 comprises two output groups with a combined Budget of $24 million.207 The output group expenditure is shown in Exhibit 4.4.

Exhibit 4.4

<table>
<thead>
<tr>
<th>Output Group</th>
<th>2002-03 Budget ($ million)</th>
<th>2002-03 Actual expenditure ($ million)</th>
<th>Variance (a) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parliamentary reports and services</td>
<td>10.1</td>
<td>9.76</td>
<td>-0.34</td>
</tr>
<tr>
<td>Audit reports on financial statements</td>
<td>13.9</td>
<td>13.70</td>
<td>-0.20</td>
</tr>
<tr>
<td>Total cost</td>
<td>24.0</td>
<td>23.46</td>
<td>0.54</td>
</tr>
</tbody>
</table>

Notes: (a) A negative variance indicates a Budget surplus for the particular line item

The Auditor-General’s annual report provided the following explanations for the variances in actual to Budget expenditure for its output groups:208

202 Ibid
203 Ibid
204 Ibid, p.15
205 Ibid, p.16
206 Victorian Auditor-General’s response, received 18 February 2004, to the Committee’s follow-up questions
207 Budget Paper No. 3, 2002-03 Budget Estimates, pp.376-377
208 Victorian Auditor-General’s Office, 2002-03 Annual Report, p.74
parliamentary reports and services – the variance was due to certain performance audits that were initially planned for completion in 2002–03 which were still in progress as at 30 June 2003; and

- audit reports on financial statements – the variance was due to delays in external service providers completing certain audit work as at 30 June 2003.

4.3 Performance information

The Committee noted that nine of the 13 performance measures were achieved or exceeded for 2002-03. Where performance did not meet targets the following explanations were provided by the VAGO, for two of the four performance measures that were not met:

- VAGO reported that 96 per cent of audit opinions were issued within statutory deadlines. The Committee noted that this figure was inconsistent with VAGO’s commentary in its annual report which indicated that only 94 per cent of audits were issued within the timeframe. The delay was due to some significant accounting and disclosure issues which could not be resolved within the timeframe; and

- only 74 per cent of management letters to agencies were issued within the established timeframes because extensive consultation was required by the VAGO on some of the more complex matters.

The Committee noted the strategies that will be implemented in 2003–04 to improve the timeliness of the issue of management letters included:

- completing as many audits as possible before the year end; and

- sending interim management letters before the end of the financial year to inform agencies earlier of the results of interim audit results.

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209 Includes one new performance measure which was not reported in the 2002-03 Budget Paper
210 Ibid
211 Ibid, p.36
212 Ibid
213 Ibid, pp.34, 36
214 Ibid, p.36
The Committee noted a number of performance measures, of a qualitative nature in the VAGO business units where the targets were vague, for example:215

- well-structured planning document available to Parliament before year end;
- contribution to process facilitates passing of amendments to Audit Act during 2002–03; and
- an increased level of satisfaction expressed by staff.

The Committee believes good governance involves comprehensive performance information that clearly indicates whether objectives, goals and targets were met. The Committee considers performance measures and targets should be expressed in more specific terms, including unit cost and timeliness measures, for example:

- percentage of performance audit reports tabled within deadlines determined in audit specification;
- percentage of performance audits completed within, for example, 10 per cent of budgets notified to the Committee; or
- percentage of staff who are satisfied with training opportunities.

The Committee recommends that:

**Recommendation 22:** As part of the Victorian Auditor General’s commitment to continuous improvement, the Office review and expand the nature and detail of the performance information in its annual report to clearly indicate whether outcomes were achieved.

The Committee was interested to know whether the Auditor-General’s Office used benchmarking to develop performance targets for outputs and new initiatives. The Office advised that it participates annually in a macro benchmarking project conducted by the Australasian Council of Auditors-General which enables the VAGO to internally compare a
range of its practices with that of other audit offices, allowing for some differences across jurisdictions which can have an impact on the comparability of data.\textsuperscript{216}

The Committee was further advised that in 2001 the Victorian Auditor-General’s Office’s independent performance auditor reported that VAGO’s productivity was generally comparable with other audit offices, and that VAGO’s slightly higher audit costs compared with those of some audit offices related to the audit mix and the greater use of contracted resources.\textsuperscript{217} The Committee noted that the independent performance auditor did not specify the benchmarks used in other States when making this observation.\textsuperscript{218}

Notwithstanding these comments, the Committee believes there would be merit in publishing details of the benchmarking so that the efficiency and effectiveness of the VAGO can be compared with other audit jurisdictions.

The Committee recommends that:

**Recommendation 23:** Where national benchmarks for the performance of Audit Offices are agreed upon by the Australasian Council of Auditors-General, those benchmarks be included in the annual report of the Victorian Auditor-General.

### 4.4 Major initiatives

#### 4.4.1 Practice management system

The Committee was interested in the progress made in implementing the VAGO’s new practice management system.

The VAGO advised the Committee that the broad objective of the project was to replace a time recording and billing system implemented in 1998,

\textsuperscript{216} Victorian Auditor-General’s Office response, received 23 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.13

\textsuperscript{217} Ibid

\textsuperscript{218} Alford, S., *Performance audit of the Victorian Auditor-General’s Office*, 2001, p.48
with a new practice management system that provides facilities to manage audit activities and financial resources.\(^{219}\)

The Committee was advised that the system was implemented on 1 July 2003; that post-implementation activities were completed on 31 October 2003; and that the system is in operation.\(^{220}\) VAGO advised the total Budget for the project was $784,000 and the actual cost incurred to date (from the period December 2002 to October 2003) was $669,300.\(^{221}\) VAGO further advised that the external costs over the life of the system are expected to be an additional $486,000.\(^{222}\)

The VAGO indicated that the benefits to flow from the new system include:\(^{223}\)

- more efficient management and operational reporting from financial and audit data being in one database;
- more effective management of audit activities as the data is available to audit managers at client premises;
- more effective decision making from users having access to online query and reporting facilities;
- more efficient decision making as data is available immediately; and
- more efficient client billing processes due to the integration of the audit and financial data.

The Committee looks forward to seeing more comprehensive performance and financial information arising from the system included in future VAGO annual reports and in the Budget Papers, particularly in respect of the cost of individual performance audits.

\(^{219}\) Victorian Auditor-General’s Office response, received 23 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.20

\(^{220}\) Ibid.

\(^{221}\) Ibid, Victorian Auditor-General’s Office response, received 18 February 2004, to the Committee’s follow-up questions

\(^{222}\) Ibid.

\(^{223}\) Ibid.
Chapter 5: Department of Education and Training

Key Findings of the Committee:

5.1 The total Budget for the Department of Education and Training, adjusted for the machinery of government changes, was $6,174.3 million in 2002-03. Actual expenditure for the year was $6,452.6 million, $278.3 million or 4.5 per cent over Budget.

5.2 The operating result for the Department of Education and Training was a surplus of $154.7 million in 2002-03, which was 24.4 per cent below the budgeted surplus of $204.6 million. This was due mainly to cost and budget pressures associated with salary increases for staff and teachers, additional staff appointments, increased enrolment growth in both government and non-government schools and damage costs for schools affected by fires.

5.3 During 2002-03, the Treasurer approved additional funding of $155.7 million to meet some of the additional cost increases incurred by the Department.

5.4 The Department appointed 934 additional staff in 2002-03, in the areas of school teaching (605), school non-teaching (275) and central and regional offices (54).

5.5 Employee expenses of $3.9 billion included bonus payments to executive officers of $662,248. The Department and its Agencies paid WorkCover premiums of $50.1 million. No bonus payments were made to non-executive staff.

5.6 Over $1.5 billion of revenue and expenditure was processed by the Department of Education and Training through trust fund accounts. There was, however, limited disclosure on trust fund transactions and balances in the annual report of the Department.
Key Findings of the Committee (continued):

5.7 Stress related claims by staff increased by 37 per cent from the previous year. The major contributing factors were: perceived workload issues; complaints investigations and unsatisfactory performance procedures; conflict between principals and staff; conflict with colleagues; and conflict with students.

5.8 Expenditure on capital projects (including expenditure for modernisation of schools, funded from the Growing Victoria infrastructure reserve) amounted to $185.1 million in 2002-03. The asset investment budget for the same period was $194.1 million.

5.9 The Department of Education and Training achieved 60 per cent of its performance targets for 2002-03. Where targets were not achieved, actual outcomes varied by less than 5 per cent for the majority of performance outcomes.

5.10 The Department of Education and Training achieved its targeted reduction of average class sizes in prep-year 2 and years 3-6. Improvements in teacher-student ratios at primary and secondary school levels and retention rates for students in years 10-12 were also achieved.

5.11 Performance targets not achieved during 2002-03 included reading proficiency for prep and year 1 students across metropolitan and non-metropolitan regions and average student attendance rates for years 7-10 and years 7-12. Computer to student ratios were also below performance targets (see exhibit 5.6). Some of these measures declined in performance outcomes from the previous financial period.

5.12 As individual schools have the discretion to make decisions about staffing strategies, the Department of Education and Training was unable to identify the number of additional teachers that have been appointed to achieve the Government’s average class size target for years prep to 2.
Key Findings of the Committee (continued):

5.13 The level of satisfaction expressed by TAFE graduates with the quality of training provided by TAFE institutes declined from 65 per cent in 2001-02 to 60 per cent in 2002-03.

5.14 Reviews of universities and TAFE institutes have highlighted the need for governance arrangements to be strengthened.

The Department of Education and Training is responsible for funding, purchasing, regulating and providing education and training services in Victoria, delivered through schools, TAFE institutes, registered training organisations, adult and community education (ACE) organisations, adult education institutions and higher education institutions.224

The Department supports the two portfolios of Education and Training; and Education Services. As a result of the machinery of government changes in December 2002, the output structure of the Department was changed with responsibility for Youth Affairs transferring to the Department for Victorian Communities.

5.1 Analysis of financial statements

The total Budget for the Department of Education and Training, adjusted for the machinery of government changes, was $6,174.3 million in 2002-03. Actual expenditure for the year was $6,452.6 million, $278.3 million or 4.5 per cent over Budget.

The operating result for the Department of Education and Training was $154.7 million in 2002-03, 24.4 per cent below the 2002-03 budgeted operating result. This was due mainly to cost and budget pressures associated with salary increases for staff and teachers, additional staff appointments, increased enrolment growth in both government and non-government schools and damage costs for schools affected by fires.225 Additional funding was received by the Department to meet some of these costs increases. Further details are provided at Section 5.1.1.

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224 Department of Education and Training, 2002-03 Annual Report, p.1
225 Ibid, pp.124-125
Report on the 2002-03 Budget Outcomes

Exhibit 5.1

Department of Education and Training
Statement of Financial Performance for 2002—03

<table>
<thead>
<tr>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03 Budget(a) ($ million)</td>
<td>2002-03 Actual ($ million)</td>
<td>Variation (b) ($ million)</td>
</tr>
</tbody>
</table>

Controlled items

Revenue from ordinary activities

<table>
<thead>
<tr>
<th></th>
<th>2002-03</th>
<th>2002-03</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output appropriations</td>
<td>5 362.8</td>
<td>5 533.6</td>
<td>170.8</td>
</tr>
<tr>
<td>Special appropriations</td>
<td>0.3</td>
<td>0.2</td>
<td>-0.1</td>
</tr>
<tr>
<td>Resources received free of charge or for nominal consideration</td>
<td>0.7</td>
<td>0.0</td>
<td>-0.7</td>
</tr>
<tr>
<td>Sale of goods and services</td>
<td>485.5</td>
<td>461.6</td>
<td>-23.9</td>
</tr>
<tr>
<td>Commonwealth grants</td>
<td>258.1</td>
<td>315.4</td>
<td>57.3</td>
</tr>
<tr>
<td>Other revenue and revenue from other parties</td>
<td>271.6</td>
<td>296.4</td>
<td>24.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6 378.9</td>
<td>6 607.3</td>
<td>228.4</td>
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</table>

Expenses from ordinary activities

<table>
<thead>
<tr>
<th></th>
<th>2002-03</th>
<th>2002-03</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee benefits</td>
<td>3 729.4</td>
<td>3 901.8</td>
<td>172.4</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>265.1</td>
<td>288.1</td>
<td>23.0</td>
</tr>
<tr>
<td>Grants and other payments</td>
<td>572.5</td>
<td>555.7</td>
<td>-16.8</td>
</tr>
<tr>
<td>Capital asset charge</td>
<td>565.2</td>
<td>565.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Supplies and services</td>
<td>1 040.8</td>
<td>1 140.8</td>
<td>99.2</td>
</tr>
<tr>
<td>Other expenses from ordinary activities</td>
<td>0.0</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>1.3</td>
<td>0.7</td>
<td>-0.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6 174.3</td>
<td>6 452.6</td>
<td>278.3</td>
</tr>
</tbody>
</table>

Net result for the reporting period

|                                | 2004.6  | 154.7   | -49.9     |

Administered items

Administered revenue

<table>
<thead>
<tr>
<th></th>
<th>2002-03</th>
<th>2002-03</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of goods and services</td>
<td>1.7</td>
<td>2.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Commonwealth grants</td>
<td>1 392.8</td>
<td>1 552.7</td>
<td>159.9</td>
</tr>
<tr>
<td>Other (c)</td>
<td>0.6</td>
<td>-1.6 (c)</td>
<td>-2.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 395.1</td>
<td>1 553.1</td>
<td>158.0</td>
</tr>
</tbody>
</table>

Administered expenses

<table>
<thead>
<tr>
<th></th>
<th>2002-03</th>
<th>2002-03</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants and other payments</td>
<td>961.0</td>
<td>1 099.3</td>
<td>138.3</td>
</tr>
<tr>
<td>Purchase of supplies and services</td>
<td>0.0</td>
<td>11.3</td>
<td>11.3</td>
</tr>
<tr>
<td>Payments into the consolidated fund</td>
<td>445.3</td>
<td>440.2</td>
<td>-5.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 406.4</td>
<td>1 550.8</td>
<td>144.4</td>
</tr>
</tbody>
</table>

Revenue less expenses

|                                | -11.3   | 2.3     | 13.6      |

Notes:
(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003
(b) A negative variance indicates a budget surplus for the particular line item
(c) This relates to the write-down of buildings to realisable value for Lowana Secondary College and Karingal Park Secondary College
(d) Some totals may not add up due to rounding

The Department identified the following reasons for variations between the adjusted Budget and the actual results in the Statement of Financial Performance for 2002-03:

- increase in output appropriations ($170.8 million), reflected additional Government funding to support the increased demand for educational services and student enrolment growth;

- Commonwealth grants - increased funding of $57.3 million was received from the Australian National Training Authority (ANTA) for specific training projects. The Department advised the level of funding from ANTA is difficult to budget as funding is linked to specific deliverables. Commonwealth grants received during 2002-03, (as reflected in the administered financial statements of the Department) were also $159.9 million higher than Budget, due to an increase in Commonwealth funding for schools;

- other revenue ($24.8 million), was higher than budget, due to increased revenue from asset sales, interest on investments, other grants and private donations for schools and TAFE institutes;

- employee benefits expenditure ($172.4 million), reflected salary increases paid to staff, following renegotiations of the TAFE Bargaining Agreement and VPS Enterprise Bargaining Agreement. Salary increases were also paid to School Support Officers and

- supplies and services ($99.2 million) - reflected increased purchases by schools and TAFE institutes funded from additional government funding and locally raised revenue. Purchases and supplies (administered), reflected the value of the International Fibre Centre building that was transferred at no cost to Deakin University.

At 30 June 2003, the Department and its agencies controlled assets valued at $10,248.2 million and liabilities of $1,225.6 million. Property,
plant and equipment accounted for 89 per cent of the Department’s total asset base (see Exhibit 5.2).

Exhibit 5.2

<table>
<thead>
<tr>
<th></th>
<th>Column 1 2002-03</th>
<th>Column 2 Actual 2002-03</th>
<th>Column 2-1 Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Controlled items</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>468.9</td>
<td>477.3</td>
<td>8.4</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>133.2</td>
<td>156.1</td>
<td>22.9</td>
</tr>
<tr>
<td>Receivables</td>
<td>126.6</td>
<td>69.8</td>
<td>-56.8</td>
</tr>
<tr>
<td>Inventories</td>
<td>7.6</td>
<td>8.4</td>
<td>0.8</td>
</tr>
<tr>
<td>Prepayments</td>
<td>7.2</td>
<td>12.6</td>
<td>5.4</td>
</tr>
<tr>
<td>Other assets</td>
<td>2.3</td>
<td>1.2</td>
<td>-1.1</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>745.7</td>
<td>725.3</td>
<td>-20.4</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>433.1</td>
<td>384.2</td>
<td>-48.9</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>17.4</td>
<td>8.9</td>
<td>-8.5</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>8 142.8</td>
<td>9 116.2</td>
<td>973.4</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>0.1</td>
<td>0.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Other</td>
<td>11.8</td>
<td>13.1</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>8 605.2</td>
<td>9 522.9</td>
<td>917.7</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>9 350.9</td>
<td>10 248.2</td>
<td>897.3</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>262.3</td>
<td>181.5</td>
<td>-80.8</td>
</tr>
<tr>
<td>Interest-bearing liabilities</td>
<td>2.2</td>
<td>2.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Provisions</td>
<td>174.1</td>
<td>181.8</td>
<td>7.7</td>
</tr>
<tr>
<td>Other</td>
<td>76.8</td>
<td>75.9</td>
<td>-0.9</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>515.4</td>
<td>442.0</td>
<td>-73.4</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest-bearing liabilities</td>
<td>3.4</td>
<td>2.6</td>
<td>-0.8</td>
</tr>
<tr>
<td>Provisions</td>
<td>801.5</td>
<td>781.0</td>
<td>-20.5</td>
</tr>
<tr>
<td>Amounts owing to other departments</td>
<td>1.9</td>
<td>0.0</td>
<td>-1.9</td>
</tr>
<tr>
<td><strong>Total non current liabilities</strong></td>
<td>806.8</td>
<td>783.6</td>
<td>-23.2</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>1 322.2</td>
<td>1 225.6</td>
<td>-96.6</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>8 028.7</td>
<td>9 022.5</td>
<td>-993.8</td>
</tr>
</tbody>
</table>
Chapter 5: Department of Education and Training

<table>
<thead>
<tr>
<th></th>
<th>Column 1 2002-03 Budget(a) ($ million)</th>
<th>Column 2 2002-03 Actual ($ million)</th>
<th>Variation(b) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administered items</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>0.1</td>
<td>0.0</td>
<td>-0.1</td>
</tr>
<tr>
<td>Receivables</td>
<td>0.1</td>
<td>16.5</td>
<td>16.4</td>
</tr>
<tr>
<td>Prepayments</td>
<td>2.9</td>
<td>3.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>1.2</td>
<td>1.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Total current assets</td>
<td>4.2</td>
<td>20.8</td>
<td>16.6</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>0.0</td>
<td>14.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>0.0</td>
<td>14.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Total assets</td>
<td>4.2</td>
<td>34.8</td>
<td>30.6</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>-0.1</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Other</td>
<td>2.9</td>
<td>3.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>2.8</td>
<td>3.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Net assets</td>
<td>1.5</td>
<td>31.5</td>
<td>30.0</td>
</tr>
</tbody>
</table>

Notes:  
(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003  
(b) A negative variance indicates the actual result for the particular line item was below Budget  
(c) Some totals may not add up due to rounding


The Department provided the following explanations for the material variations in the Statement of Financial Position:

- other financial assets ($22.9 million) - relates to funds held by TAFE institutes for future capital works. The Budget anticipated an increased level of payments for capital works during 2002-03. The Department advised that funds carried over for future capital works will be fully expended in 2003-04;

- current receivables ($56.8 million) – decrease in this balance reflects the improved recovery of outstanding amounts by schools and TAFE institutes, in conjunction with the settlement

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231  Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.6
of a major debtor following the transfer of the employment division to the Department for Victorian Communities;

- non-current receivables ($48.9 million) – represents the amount owed by the Department of Treasury and Finance for services provided by the Department of Education and Training;

- non-current other financial assets ($8.5 million) – a reduction in the level of term deposits held by individual schools contributed to the variance in this balance;\(^{232}\)

- property, plant and equipment ($973.4 million) – the increase was due to a significant upward revaluation of property assets;

- payables ($80.8 million) – the new e-commerce payment system implemented in 2002-03 resulted in creditors being paid on a more timely basis. As a result, the payables balance was lower than budgeted;

- administered receivables ($16.4 million) – relates to amounts owing from unbudgeted property sales during 2002-03; and

- administered property, plant and equipment ($14 million) – reflects the upward revaluation of property assets which was not anticipated at the time the Budget was prepared.

**5.1.1 Funding increases — Treasurer’s Advance**

During 2002-03, the Treasurer approved additional funding of $155.7 million to meet the additional expenditure requirements of the Department as detailed in Exhibit 5.3.\(^{233}\)

\(^{232}\) Ibid, p.5

\(^{233}\) Ibid, p.20
Exhibit 5.3

Department of Education and Training
Advances approved by the Treasurer for 2002—03

<table>
<thead>
<tr>
<th>Treasurer’s Advance</th>
<th>Amount Approved ($’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary increases for Assessors at the VCAA, ACFE regional council staff and Victorian School of Languages Instructors</td>
<td>1,837</td>
</tr>
<tr>
<td>Program funding – Disabilities and Impairments</td>
<td>26,000</td>
</tr>
<tr>
<td>Additional depreciation from revaluations of assets</td>
<td>960</td>
</tr>
<tr>
<td>School Fire Costs</td>
<td>10,864</td>
</tr>
<tr>
<td>Reform and Demand Strategy</td>
<td>88,936</td>
</tr>
<tr>
<td>Governance Model</td>
<td>450</td>
</tr>
<tr>
<td>Social and Community Services Award</td>
<td>62</td>
</tr>
<tr>
<td>Salary increases – TAFE Bargaining Agreement, School Support Officers, VPS Enterprise Bargaining Agreement</td>
<td>23,912</td>
</tr>
<tr>
<td>Reinstatement of 1.5% productivity dividend following the incorrect application of the productivity savings requirement in 1998 and 1999.</td>
<td>2,700</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>155,721</strong></td>
</tr>
</tbody>
</table>

Source: Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.20

Further details were provided by the Department in relation to some of the more significant amounts approved by the Treasurer in 2002-03:234

- disabilities program – additional funding of $26 million was allocated to meet increased demand growth for support services provided to government school students with special needs under the disabilities program. Further details are provided at Section 5.4.8; and

- school fire reinstatement and asset write-off costs - funds totalling $5.65 million were provided to cover reinstatement costs and minor equipment losses for those schools affected by fires. A further $5.2 million was required for assets destroyed in the fires.

At 30 June 2003, the Department had utilised $149.2 million of its additional funding allocation. The Committee noted that over 50 per cent ($82.4 million) of this amount related to the reform and demand strategy which addressed enrolment growth in government and non-government schools and the preservation of existing educational services across all education and training sectors.235

234 Ibid, p.21
235 Ibid, pp.20–21
In assessing the additional cost impact of enrolment growth, the Committee noted that student numbers in government and non-government schools increased by 4,294 between February 2002 and February 2003 with independent schools registering the highest increase (3.5 per cent). Student numbers in government schools increased by 0.3 per cent while Catholic schools experienced a 0.5 per cent decline in student numbers.\textsuperscript{236}

Exhibit 5.4 reflects the increasing trend in student enrolments over the period February 1999 to February 2003:

\textbf{Exhibit 5.4}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{student_enrolments.png}
\caption{Department of Education and Training Student enrolments in government and non-government schools February 1999-February 2003}
\end{figure}

Enrolment growth cost would have been approximately $25.6 million during 2002-03, based on the formula for government recurrent expenditure per student ($8,266 for government schools and $4,371 for non-government schools) published in the \textit{Report on Government Services 2004}.\textsuperscript{237} The balance of funds of $56.8 million received under the reform and demand strategy ($82.4 million) would therefore have been applied towards maintaining the quality of education and training services and preserving the current level of services across all education and training sectors.\textsuperscript{238}

\textsuperscript{236} Department of Education and Training, 2002-03 Annual Report, p.129
\textsuperscript{237} Report on Government Services 2004, Steering Committee Review of Government Service Provision, pp.3.29-3.30
\textsuperscript{238} Hon. L. Kosky, MP, Minister for Education and Training, 2003-04 Budget Estimates transcript of evidence, 16 May 2003, pp.165-167
The Committee was surprised that the Department had to apply for Treasurer’s Advances of $88.9 million (of which $82.4 million was spent), to cover enrolment growth and other additional costs (see Exhibit 5.3). Detailed projections about these costs should have been factored in as part of the Department’s bid for its 2002-03 Budget funding. The Committee believes that this is an area that warrants further attention and urges the Department to review its budget development framework for schools, to ensure more accurate forecasts of its Budget estimates.

The Committee recommends that:

**Recommendation 24:** In view of the significant level of additional funding that was required to maintain education and training services and enrolment growth during 2002-03, the Department of Education and Training review its Budget development and management framework for schools to ensure a more accurate forecast of its Budget estimates.

### 5.1.2 Employee expenses

At 30 June 2003, the Department employed 49,993.2 equivalent full time staff, an increase of 934 from the previous year. Staff additions were mainly in the areas of school teaching staff (605), school non-teaching staff (275) and central and regional office staff (54).[^239]

Employee expenses amounted to $3.9 billion during 2002-03 and exceeded the allocated Budget of $3.7 billion as a result of additional staff numbers and negotiated salary increases. (See Exhibit 5.1)

Other employee costs incurred by the Department during 2002-03, included:

- bonus payments to executive officers of $662,248, with 76 per cent of staff at the EO2 level and 95 per cent of staff at the EO3 level qualifying for such payments. The Department indicated that staff who achieved a rating of 3 or 4, based on a 4 point scale used to determine the performance of staff, qualified for a bonus payment. No bonuses were paid to non-

[^239]: Department of Education and Training, 2002-03 Annual Report, pp.135-136
executive staff during 2002-03. The Department also indicated that there were no voluntary or targeted separation packages during 2002-03, \(^{240}\) and

- WorkCover premiums for the Department and its agencies, that is, TAFE institutes, the Victorian Curriculum Assessment Authority and the Centre for Adult Education, amounted to $50.1 million. \(^{241}\)

The Department and the Office of Training and Tertiary Education processed 315 stress related claims during 2002-03 at a total cost of $3.6 million. The Department indicated that data was not available from other agencies in the education portfolio. \(^{242}\)

The Committee is concerned that stress related claims increased by 37 per cent from the previous year. The Committee was advised that perceived workload issues; complaints investigations and unsatisfactory performance procedures; conflict between principals and staff; conflict with colleagues; and conflict with students were the major contributing factors. \(^{243}\)

As workplace stress has broad ranging implications for the well being of staff, overall productivity, quality of services and costs, the Committee recommends that:

**Recommendation 25:** The Department of Education and Training undertake a systematic assessment of factors contributing to increasing levels of stress related claims and the adequacy of programs to assist in managing and mitigating the incidence of stress.

### 5.1.3 Trust funds

At 30 June 2003, $153.3 million was held in the seven trust accounts of the Department. The Office of Training and Further Education Managed

\(^{240}\) Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp. 8-9

\(^{241}\) Ibid, p.9

\(^{242}\) Ibid, p.10

\(^{243}\) Department of Education and Training, 2002-03 Annual Report, p.19, Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.10
Funds Trust recorded the highest balance of $102.7 million.\textsuperscript{244} This Trust Fund represents specific purpose funds received from the Commonwealth, by the Victorian Learning and Employment Skills Commission (VLESC) and Adult Community and Further Education (ACFE).

Over $1.5 billion in trust revenue and expenditure was processed by the Department, of which $1.1 billion related to Commonwealth grants received by the Department and on-passed to non-government schools.\textsuperscript{245}

The Committee noted that there was no disclosure of trust fund accounts or transactions in the annual report of the Department. As the Department processes a significant level of trust fund transactions, the Committee recommends that:

Recommendation 26: Financial information relating to each departmental trust fund be summarised in the annual report of the Department of Education and Training.

\textbf{5.1.4 Asset investment program}

The asset investment program of the Department mainly related to the construction, replacement and modernisation of schools and TAFE facilities. During 2002-03, expenditure on capital projects (including expenditure for modernisation of schools, which was funded out of the Growing Victoria infrastructure reserve) amounted to $185.1 million. The asset investment budget for the same period was $194.1 million. Delays in planning processes for certain capital projects contributed to the budget not being fully expended.\textsuperscript{246}

At 30 June 2003, $218 million had been expended on school modernisation projects (of which $89.9 million was incurred in the previous year). The total estimated investment in school modernisation projects to 2003-04 was budgeted at $297 million.\textsuperscript{247}

According to information contained in the Budget Papers, school modernisation projects are expected to significantly reduce maintenance

\begin{footnotes}
\item[244] Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.18-19
\item[245] Ibid, p.19
\item[246] Ibid, p.28, Attachment 1
\item[247] Ibid
\end{footnotes}
This is particularly important, given the findings of an audit review by the Victorian Auditor-General in June 2003 which identified that $320 million would be required over a 6-year period, commencing 2000-01, to bring school facilities up to the required maintenance standard. The report highlighted a funding shortfall of $120 million for school maintenance needs over a two year period to February 2003.

The Government has indicated that the investment in new capital projects has reduced the future maintenance needs of schools by $70 million and funding of $50 million has been allocated for the replacement of relocatable classrooms in 2003-04.

While the above funding arrangements may address the more immediate maintenance requirements of schools, maintenance backlogs will continue if the long term maintenance needs, as identified in the Auditor-General’s report, are not adequately addressed.

The Committee recommends that:

**Recommendation 27:** The Department of Education and Training review the adequacy of school maintenance budgets in meeting both the immediate and longer term school maintenance requirements.

Asset expenditure for 2002-03, funded from the Growing Victoria infrastructure reserve (excluding school modernisation projects), amounted to $53.1 million, 43 per cent below the allocated Budget of $94.2 million. Some of the larger GVIR projects included the development of enhanced learning environments for TAFE institutes (estimated to cost $45 million), Ballarat Vocational Education and Training Centre ($10.5 million) and the modernisation of school and TAFE facilities to incorporate information and communication technology ($82 million). The following reasons for delays in planning and implementing GVIR projects were provided by the Department:

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248 Budget Paper No.2, Budget Statement, 2002-03, p.175
251 Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.29
252 Department of Education and Training response, received 25 March 2004, to the Committee’s follow-up questions, p.5

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complexities in ensuring the project scope meets the needs of all stakeholders;

minimising potential cost over runs; and

unforseen latent site conditions which could not be determined prior to the commencement of works.

As a result of the delays in implementing GVIR projects, extensions to expected completion dates ranged from 6 to 18 months. The Committee is concerned at the delays in implementing these projects, as they directly impact on the delivery of improved educational services in both schools and TAFE institutes.

The Committee recommends that:

Recommendation 28: The Department of Education and Training give priority to addressing the delays in implementing projects funded from the Growing Victoria Infrastructure Reserve.

The Department incurred a loss of $19.3 million on asset disposals during 2002-03. Included in the asset disposal loss figure were school buildings valued at $5.2 million that were written off during the year due to extensive fire damage and the reclassification of assets valued at $1,000 or less to operating expenditure.

The Committee also noted that significant asset losses totalling $7.2 million were made on the disposal of three school sites with a total written down value of $9.5 million. The sale prices for these assets were around 39 per cent to 96 per cent below their written down values, as the demolition costs of buildings were borne by the purchaser. One building required the removal of asbestos prior to its demolition.

253 Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.29
254 Department of Education and Training, 2002-03 Annual Report, p.103
255 Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.3 and 8
256 Ibid, p.3
257 Ibid, p.8
5.2 Output group expenditure

The Department’s output group structure and expenditure for 2002-03 is illustrated at Exhibit 5.5:

Exhibit 5.5

Department of Education and Training
Output Group Expenditure, 2002-03

<table>
<thead>
<tr>
<th>Output Group</th>
<th>Column 1 2002-03 Budget(a) ($ million)</th>
<th>Column 2 2002-03 Actual ($ million)</th>
<th>Column 2-1 Variation(b) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>School Education</td>
<td>4824.3</td>
<td>5059.5</td>
<td>235.2</td>
</tr>
<tr>
<td>Training and Tertiary Education</td>
<td>992.2</td>
<td>988.2</td>
<td>-4.0</td>
</tr>
<tr>
<td>Policy, Strategy and Information Services</td>
<td>33.7</td>
<td>35.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Total</td>
<td>5850.2</td>
<td>6083.2</td>
<td>233</td>
</tr>
</tbody>
</table>

Notes: (a) 2002—03 Budget incorporates adjustments for machinery of government changes for the period 1 January 2003 to 30 June 2003. (b) A negative variance indicates a Budget surplus for the particular line item. (c) Excludes youth output group which was transferred to the Department for Victorian Communities in December 2002 following the machinery of government changes.

Source: Department of Education and Training, 2002-03 Annual Report, pp.25-80

As indicated in Section 5.1, the overall increase in output group expenditure when compared to the allocated budget for 2002-03 was mainly associated with student enrolment growth and salary cost increases. These cost increases were supported by additional State and Commonwealth funding.

5.3 Performance information

The Department achieved 60 per cent of the performance targets published in its 2002-03 annual report. The Committee noted that where targets were not achieved, in most cases, actual outcomes varied by less than 5 per cent against established performance targets.

Exhibit 5.6 provides further details of performance measures and outcomes that materially varied against established performance targets during 2002-03:
## Exhibit 5.6

Department of Education and Training  
Selected Performance Outcomes 2002-03

<table>
<thead>
<tr>
<th>Department output</th>
<th>2002-03(a) Target</th>
<th>2002-03(a) Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schools with 1:5 or better computer-student ratio</td>
<td>95 per cent</td>
<td>78.5 per cent</td>
</tr>
<tr>
<td>New arrival students receiving intensive or targeted support</td>
<td>825</td>
<td>1 044</td>
</tr>
<tr>
<td><strong>Junior secondary education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schools with 1:5 or better computer-student ratio</td>
<td>95 per cent</td>
<td>76.2 per cent</td>
</tr>
<tr>
<td><strong>Senior secondary education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Students accessing technology enabled curriculum choices</td>
<td>3 000</td>
<td>1 860</td>
</tr>
<tr>
<td>Government school students in years 10-12 with a Managed Individual Pathways (MIP) plan</td>
<td>60 per cent</td>
<td>84 per cent</td>
</tr>
<tr>
<td><strong>Non-government school education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-government teachers registered annually</td>
<td>2 700</td>
<td>3 238</td>
</tr>
<tr>
<td>Non-government schools receiving Needs Based Capital Assistance as a percentage of total eligible applicants</td>
<td>65 per cent</td>
<td>22 per cent</td>
</tr>
<tr>
<td><strong>TAFE places</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>School based apprentices/trainees in training</td>
<td>1550</td>
<td>1096</td>
</tr>
<tr>
<td>TAFE students funded through the Youth Pathways program with an MIP plan</td>
<td>100 per cent</td>
<td>79 per cent</td>
</tr>
<tr>
<td>TAFE students funded through the Youth Pathways program leaving TAFE institutes who are tracked by a provider six months after exiting</td>
<td>100 per cent</td>
<td>78.2 per cent</td>
</tr>
<tr>
<td><strong>ACE places and community support</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACE students funded through the Youth Pathways program with an MIP plan</td>
<td>100 per cent</td>
<td>86 per cent</td>
</tr>
<tr>
<td>ACE students funded through the Youth Pathways program leaving ACE who are tracked by a provider six months after exiting</td>
<td>100 per cent</td>
<td>71.5 per cent</td>
</tr>
<tr>
<td><strong>International education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overseas students recruited to study in Victorian Government schools in the year</td>
<td>800</td>
<td>1060</td>
</tr>
</tbody>
</table>

Notes:  
(a) The majority of education and training output performance measures are reported on a calendar year basis to reflect the operating cycle of education providers.

Source: Department of Education and Training, 2002-03 Annual Report, pp.25-76

The Department provided the following explanations for the variances in actual and targeted performance outcomes reflected in Exhibit 5.6:

- computer-student ratio (primary and secondary) – targets were not met due to the removal of older computers from service.\(^\text{258}\)

\(^\text{258}\) Department of Education and Training, 2002-03 Annual Report, pp.25 and 27
The average age of all computers in schools was 3 years 2 months during 2002-03;\textsuperscript{259}

- support for new arrival students – targets were exceeded due to the increased number of new arrival students during 2002;\textsuperscript{260}

- students accessing technology enabled curriculum choices – reduction in performance outcomes was linked to improvements in staffing levels, which reduced the need for alternative delivery, other distance education options and reduced use of video conferencing;\textsuperscript{261}

- government school students in years 10-12 with a managed individual pathways plan (MIP) – implementation of the MIP progressed ahead of established targets during 2002-03;\textsuperscript{262}

- non-government teachers registered annually – targets were exceeded due to an increase in requests for teacher registrations;\textsuperscript{263}

- non-government schools receiving needs based capital assistance as a percentage of total eligible applicants – the Department advised that the original target did not reflect the core elements of the program and was therefore overstated. The Department also advised that this one-off program was successfully implemented in 2002-03;\textsuperscript{264}

- school based apprentices/trainees in training – actual performance outcomes were influenced by employment decisions of individual employers;\textsuperscript{265}

- TAFE and ACE students funded through the Youth Pathways program with an MIP plan – underachievement in this area was due to students withdrawing prior to completion of the Youth Pathways program and reluctance by students to participate in the planning process;\textsuperscript{266} and

\textsuperscript{259} Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.23
\textsuperscript{260} Department of Education and Training, 2002-03 Annual Report, p.25
\textsuperscript{261} Ibid, p.28
\textsuperscript{262} Ibid
\textsuperscript{263} Ibid, p.45
\textsuperscript{264} Ibid
\textsuperscript{265} Ibid, p.51
\textsuperscript{266} Ibid
TAFE and ACE students funded through the Youth Pathways program leaving TAFE and ACE institutions who are tracked by a provider six months after exiting – the Department advised that actual outcomes may be understated as the reporting timeframe did not capture all students who enrolled in 2002.267

The Committee noted some improvements in performance outcomes from the previous year including:268

- reduction of average class sizes in prep-year 2 (from 22.4 to 21.8 students) and years 3-6 (from 25.2 to 24.8 students);
- improvement in teacher-student ratio from 1:16.6 to 1:16.5 for primary education and 1:12.5 to 1:12.4 for junior secondary education;
- higher percentage (93.6 to 95.7) of non-metropolitan students attaining text level 1 in reading at the end of Prep;
- improvements in years 10-12 retention rates, from 76.8 per cent to 77.5 per cent;
- increase in annual student contact hours in Vocational Education and Training (VET) in Victorian Certificate of Education (VCE) programs, from 6.24 to 6.77 hours;
- increase in the number of persons aged 15-64 participating in TAFE programs as a proportion of population, from 14 to 14.7; and
- increase in the percentage of successfully completed training programs provide by TAFE institutes, from 75 per cent to 76.3 per cent.

The Committee’s review of performance measures for 2002-03 also identified that:

- there was a decline in performance outcomes from the previous year against literacy measures for student attainment of text level 1 at end of prep in reading, from 95.6 per cent to

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267 Ibid

93.4 per cent; and student attainment at text level 5 at the end of year 1 in reading from 99.3 per cent to 97.9 per cent;269

- key performance targets were not achieved for average student attendance rates for years 7-10 (90.2 per cent against a target of 93 per cent) and years 11-12 (90.8 per cent against a target of 93 per cent);270

- performance measures were not published for numeracy outcomes across primary and secondary school years. However, the Committee noted that additional numeracy and literacy measures have been developed for 2003-04.271

The Committee also noted that:

- literacy and numeracy national benchmarks for year 7 students were not available from the Ministerial Council on Education, Employment and Youth Affairs in 2002. Performance measures that related to national benchmarks were therefore not utilised by the Department during 2002-03;272 and

- parent satisfaction outcomes for primary and secondary schooling were based on data from the 2001 school year.273

The Committee reiterates that timely availability of performance information is an important element of the performance management framework and recognises that this has impacted on the national benchmark performance measures for year 7 students and parent satisfaction measures utilised by the Department.

In relation to parent satisfaction surveys, the Committee is of the opinion that an analysis of the outcomes of surveys needs to be completed on a timely basis to ensure that the Department’s annual report contains details of the survey outcomes of the most recent calendar year.

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271 Budget Paper No. 3, 2003-04 Budget Estimates, pp.27-33
272 Department of Education and Training, 2002-03 Annual Report, p.27
273 Ibid, pp.25-27
The Committee recommends that:

**Recommendation 29**: Parent satisfaction surveys be undertaken by the Department of Education and Training on a more timely basis in order that:

(a) survey results can be utilised for performance improvement purposes;

and

(b) the annual report of the Department contains details of the outcomes of the surveys undertaken for the most recent calendar year.

### 5.3.1 Benchmarking of performance measures

The Committee noted the Department uses national benchmarks to measure literacy and numeracy standards in junior secondary education (Years 7-10). The Department also indicated it uses a number of sources of information to derive national and interstate comparable benchmarks for performance targets. Information is drawn from the National Schools Statistics Collection and the Australian Bureau of Statistics to identify national and interstate comparisons on performance.

The Department also indicated that the Australian National Training Authority (ANTA) Ministerial Council annually reports performance outcomes for vocational education and training for each state and territory against a set of key performance measures.

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274 Department of Education and Training, 2002-03 Annual Report, p.27
275 Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.13
276 Ibid, p.14
Given the availability of interstate comparisons on performance outcomes, the Committee recommends that:

**Recommendation 30:** Performance information contained in the annual report of the Department of Education and Training be supplemented by including national benchmarking information in the key areas of literacy, numeracy, student retention rates and cost of service delivery.

5.4 Major initiatives

5.4.1 Early Years strategy

The main objective of the Early Years strategy is to ensure that all students in the early years of schooling (P-4), develop literacy and numeracy skills to maximise their future opportunities.\(^{277}\)

During 2002-03, funding of $34.6 million was allocated over four years to support the implementation of school-based numeracy programs in regions. In addition, annual funding of $52 million was provided to support early years literacy coordination and the implementation of one to one intervention programs, such as Reading Recovery, for students in Year 1.\(^{278}\)

The National Benchmark Results for Reading, Writing and Numeracy published by the Ministerial Council of Education, Employment, Training and Youth Affairs (MCEETYA) for the 2001 calendar year, identified that 89 per cent of year 3 students in Victoria had achieved the national reading benchmark. This result was below the national average of 90 per cent and also represented a decline in performance from the previous year, where 93 per cent of students achieved the national reading benchmark.\(^{279}\)

The Committee noted that reading proficiency targets established by the Department for 2002-03 were not achieved at the prep and year 1 levels, however, actual outcomes were within 5 per cent of the established


\(^{278}\) Department of Education and Training, 2002-03 Annual Report, p.26

targets. Declining trends in the reading performance of prep and year 1 students was also apparent when compared to outcomes for the previous year.\textsuperscript{280}

These trends in literacy standards reflect the findings of an audit review undertaken by the Victorian Auditor-General in October 2003 which identified that between 1996 and 2002, there had been little average improvement in reading literacy proficiency of all students at Years 3, 5 and 7, as measured by LAP/AIM tests.\textsuperscript{281}

Other findings of the audit review included: \textsuperscript{282}

- the reading ability of all years prep to 2 students as assessed by teachers and shown in the Department’s aggregated assessment of reading data, indicated a steady improvement between 1998 and 2002. This time frame matched the provision of increased funding targeted to literacy improvement programs, including the Early Years Literacy program;

- year 1 students participating in the Reading Recovery program between 1999 and 2001 had increased their reading proficiency. Although a positive result, participation in the program did not bring these students up to the average achievement level of their peers;

- resource allocation for the Early Years Literacy and Reading Recovery programs could be more effective. The Department’s method of allocating funds to schools for these programs does not take into account student needs as reflected in their level of literacy proficiency; and

- the Department was unable to reliably determine the effectiveness of its literacy improvement programs.

\textsuperscript{280} Department of Education and Training, 2002-03 Annual Report, p.25; Department of Education and Training, 2001–02 Annual Report, p.22

\textsuperscript{281} Victorian Auditor-General’s Office, Report on Improving literacy standards in government schools, October 2003, p.5

\textsuperscript{282} Ibid, pp.6-15
The Committee recommends that:

**Recommendation 31:** The Department of Education and Training examine the underlying reasons for declining trends in reading proficiency levels for year 3 students against national benchmarks, and for prep and year 1 students when compared to outcomes for 2001-02.

The Department did not publish any performance measures on numeracy levels for primary and secondary students (except for year 10), in its 2002-03 annual report. However, the Committee is pleased that this matter was addressed in the 2003-04 Budget Papers which includes numeracy measures based on national benchmarks across primary and secondary years of schooling.\(^{283}\)

The National Benchmark Results for Reading, Writing and Numeracy also identified that the percentage of year 3 Victorian students achieving the national benchmark for numeracy in 2001, was 94.1 per cent against a national average of 93.9 per cent.\(^{284}\)

### 5.4.2 Reduction of average class sizes

The Government has committed to reducing class sizes for years prep to 2 (P-2) to an average of 21 students by 2003. According to the Department, this target was achieved in May 2003. The Committee however noted that the average P-2 class sizes for 2002 was 21.8 students.\(^{285}\)

The Committee was advised that between 1999-2000 and 2003-04 the Government committed over $200 million towards reducing the size of P-2 classes.\(^{286}\) The 2002-03 Budget also provided $43.3 million over 3 years to 2005-06 to ensure that the average class size for P-2 students is maintained at 21.\(^{287}\)

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\(^{283}\) Budget Paper No. 3, 2003-04 Budget Estimates, pp.27-33


\(^{285}\) Department of Education and Training, 2002-03 Annual Report, p.25

\(^{286}\) Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.22

\(^{287}\) Budget Paper No. 2, 2002-03 Budget Statement, p.171
The Department was unable to identify the number of additional teachers that have been appointed to maintain the targeted class sizes for P-2 students as schools have the discretion to make local decisions on the particular staffing strategies to be employed to achieve the required outcomes.288 The Committee expects that the accountability mechanisms for funding provided to schools under this initiative would have included information on additional teacher appointments.

The Committee believes the Department needs to be aware of the level of staff required to achieve reductions in class sizes in order to cost any future strategies of this nature, as well as to undertake staffing comparisons between schools for the purpose of maximising resource allocations.

The Committee recommends that:

**Recommendation 32:** To strengthen accountability arrangements for the funding provided to schools to maintain the average P-2 class sizes at the target level of 21, the Department of Education and Training include in its 2003-04 annual report information on the number of additional teachers appointed by schools to assist with this initiative.

### 5.4.3 Literacy intervention and improved participation

Programs under the literacy intervention and improved participation initiative are targeted at secondary students with the dual aim of achieving national literacy and numeracy benchmarks at the junior secondary level, and providing alternative options to support continuing participation in the education system at the senior secondary level.289

The Restart program, implemented in 2002-03 is geared towards improving literacy achievements for targeted year 7 students at the greatest risk of leaving school. Under the Restart program budget, funding was provided for 100 teachers as part of a three year initiative. A total of 97.1 teachers were employed by the Department in 2003, with the remaining positions to be filled when the Department receives the

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288 Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.23
289 Budget Paper No. 2, Budget Statement, 2002-03 p.172
results of the February 2004 census which will indicate changes in school profiles.\textsuperscript{290}

The Department reported that the Restart program resulted in 72 per cent of participating Year 7 students making significant improvement to their literacy levels in 2002-03. This outcome was below the established performance target of 75 per cent.\textsuperscript{291}

5.4.4 Middle years reform and innovation

The 2002-03 Budget has allocated $84.3 million over the next four years for the Schools for Innovation and Excellence initiative to encourage both primary and secondary schools to work together to develop strategies aimed at improving student outcomes in attendance, retention, literacy and numeracy.\textsuperscript{292}

Under this initiative, funding is provided for 250 clusters of schools with each cluster to include at least one secondary school and three primary schools.\textsuperscript{293} In the first year, an average of $200,000 is available for each cluster to develop innovative teaching and learning programs and $80,000 in the next two years to employ an educator/cluster co-ordinator to implement the programs across the schools.\textsuperscript{294}

The Department advised the Committee that 70 clusters of schools began work in January 2003.\textsuperscript{295} Expenditure of $7.9 million was allocated for this initiative in 2002-03.\textsuperscript{296}

Under the Middle Years Schooling Initiative which commenced in 2001, funding of $67.4 million was provided over a four year period, to enhance student engagement, improve literacy and numeracy outcomes, reduce truancy rates and improve attendance rates for years 5-9. The Budget allocation for 2002-03 was $14.9 million.\textsuperscript{297}

\textsuperscript{290} Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.23
\textsuperscript{291} Department of Education and Training, 2002-03 Annual Report, p.27
\textsuperscript{292} Budget Paper No. 2, 2002-03 Budget Statement, pp.171-172
\textsuperscript{295} Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.24
\textsuperscript{296} Budget Paper No. 2, 2002-03 Budget Statement, p.171
\textsuperscript{297} Budget Paper No. 2, 2001-02 Budget Statement, pp.231-232
The Department indicated that additional teachers were employed during 2002-03 to provide a range of support for students in years 5-9, including working with small groups of students to provide literacy and numeracy support. In some cases additional teachers were used to reduce class sizes in years 7-9.298

The Department identified in its annual report that the Middle Years reform initiative contributed to positive changes in students’ knowledge, skills and attitudes and connection with peers, teachers and the community.299 However, there were no specific disclosures in the Department’s annual report on the key outcomes that were achieved under this initiative.

The Committee noted that performance measures relating to literacy, numeracy, participation and retention levels, all of which form the key focuses of the Middle Years Program had not been developed by the Department in 2002-03. This matter has been addressed for 2003-04 with the development of numeracy and literacy levels across a greater range of middle years of school.300 To evaluate the overall effectiveness of the Middle Years program, the Committee believes it is important that participation and retention measures be developed and published in the annual report of the Department in 2003-04.

The Committee recommends that:

**Recommendation 33:** The retention and participation rates of middle year (5-9) students be disclosed in the annual report of the Department of Education and Training.

### 5.4.5 Victorian Certificate of Applied Learning

The Victorian Certificate of Applied Learning (VCAL), a new senior secondary qualification, was launched in February 2003 by the Minister for Education and Training following its successful trial in 2002. VCAL provides an alternative option to students in years 11-12 whose needs are not met by the VCE program.301

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298 Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.24
299 Department of Education and Training, 2002-03 Annual Report, p.28
300 Budget Paper No. 3, 2003-04 Budget Estimates, pp.27-33
The VCAL trial project in 2002, involved a total of 546 students at 22 trial sites. Sixty-seven per cent of students successfully completed the certificate or transitioned to apprenticeships and other employment.\(^{302}\)

In 2002-03 VCAL was extended to 172 government schools, 32 Catholic schools, 17 TAFE institutions and four ACE organisations.\(^{303}\) The 2002-03 Budget provided funding of $47.7 million over a period of four years to implement VCAL on a statewide basis.\(^{304}\) During 2002-03 expenditure of $10.5 million was incurred by the Department against an allocated budget of $10.8 million to implement the first phase of the statewide roll out of VCAL.\(^{305}\)

According to the Department’s performance information, 50 per cent of students are expected to successfully complete VCAL in 2003-04.\(^{306}\) Given 67 per cent\(^{307}\) of students were successful in the trial programs, the Committee would have expected that a higher percentage of students in 2003-04 would complete the VCAL.

The Committee recommends that:

**Recommendation 34:** The Department of Education and Training re-evaluate the basis for the low completion rate target of the Victorian Certificate of Applied Learning in 2003-04, with a view to developing strategies that improve pass rates and employment prospects for students.

### 5.4.6 Access to Excellence

The 2002-03 Budget allocated $81.6 million over four years ($11.4 million in 2002-03), to fund 300 additional teacher appointments in targeted schools where year 7-10 students are not achieving satisfactory levels in literacy or numeracy, or attendance or retention. Students identified as being at risk of not achieving expected learning outcomes or who may be

\(^{302}\) Department of Education and Training, 2002-03 Annual Report, p.30
\(^{303}\) Ibid
\(^{304}\) Budget Paper No. 2, 2002-03 Budget Statement, p.171
\(^{305}\) Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.24
\(^{306}\) Budget Paper No. 3, 2003-04 Budget Estimates, p.32
\(^{307}\) Department of Education and Training, 2002-03 Annual Report, p.28
at risk of not completing year 12 or its equivalent are also targeted under this initiative.\textsuperscript{308}

The Department indicated that 217 teachers were employed under the Access to Excellence initiative during 2002-03 with some schools utilising excess teacher capacity to fill positions.\textsuperscript{309} The Committee was informed that an evaluation of the initiative is expected to be undertaken by the Department in 2005.\textsuperscript{310}

The Committee was interested to learn that from 2003, an integrated approach to school accountability for key initiatives will be adopted, with the introduction of School Compacts. Under this arrangement, schools will be required to identify in the School Compact Statement, the outcomes and targets a school expects to achieve for specific government funded initiatives. Compacts will cover the following government initiatives:\textsuperscript{311}

- Early Years Literacy;
- Early Years Numeracy;
- Literacy Intervention;
- Schools for Innovation and Excellence;
- Middle Years Reform Program;
- Access to Excellence;
- Restart;
- Managed Individual Pathways (MIPs); and
- Victorian Certificate of Applied Learning (VCAL).

The Committee views the introduction of School Compacts as a positive move towards strengthening and streamlining the accountability framework for schools in delivering and reporting on key government initiatives.

\textsuperscript{308} Budget Paper No. 2, 2002-03 Budget Statement, p.171
\textsuperscript{309} Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.24
\textsuperscript{310} Ibid, p.25
5.4.7 Koori educators and Koori Home School Liaison Officers

Funding of $900,000 was provided in 2002-03, for 15 additional Koori educators and six home school liaison officers to improve education and support services for Koori students within schools and their community. A key focus of this initiative is to improve attendance and retention outcomes for Koori students in schools.\textsuperscript{312}

The Department indicated that Koori Home School Liaison Officers are responsible for developing strategies, in consultation with school communities, to assist up to five targeted schools. Koori educators, who were previously funded by the Commonwealth, are responsible for providing classroom support to Koori students and liaising with their families.\textsuperscript{313}

No performance measures and targets were published for Koori initiatives in 2002-03; however performance measures and targets have been established for 2003-04 to cover numeracy and literacy outcomes. Targets for 2003-04 do not cover some of the key areas of retention and attendance rates for Koori students. The Committee also noted that the 2003-04 performance indicators only apply at the primary school level and have not been extended to secondary and higher school education levels.\textsuperscript{314}

The Committee recommends that:

\textbf{Recommendation 35:} To assess the effectiveness of education initiatives and programs developed for Koori students, performance indicators be published in the annual report of the Department of Education and Training to separately identify attendance and retention rates of students at secondary and higher school levels.

\textsuperscript{312} Budget Paper No. 2, 2002–03, Budget Statement, p.171, Department of Education and Training, 2002-03 Annual Report, p.31

\textsuperscript{313} Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.25

\textsuperscript{314} Budget Paper No.3, 2003-04 Budget Estimates, p.28
5.4.8 Disability Program

Additional funding of $26 million was allocated during 2002-03 to meet increased demand for support services provided to government school students with special needs under the Disability Program.\textsuperscript{315} The increased demand reflected both an increase in the number of participants in the program and the changes to the needs profile of the participants.\textsuperscript{316} The Committee noted that student enrolments under the disability program increased from 16,989 to 18,448, an increase of 1,459 students, for the period January 2001 to April 2003.\textsuperscript{317}

The Committee was advised the Disability Program regularly reviews and reappraises the educational progress of students with disabilities in order to ensure that their educational needs are being met and that resources are appropriately targeted.\textsuperscript{318} However, the Department indicated it was not possible to determine whether new projects or programs for students with disabilities are initiated directly as a result of additional funding provided, as the nature of projects and programs are determined at the local level by schools, in conjunction with school representatives and parents.\textsuperscript{319}

The Committee would have expected that accountability for funding provided to schools under the Disability Program, would include information on new programs and initiatives undertaken in 2002-03, including details on the nature and cost of services provided.

5.5 Training and tertiary education

In 2002-03, training and tertiary education outputs were provided through 1,173 registered training organisations, 19 TAFE institutes (including five universities with TAFE divisions) and over 450 Adult Community Education (ACE) organisations. Registered training organisations provided over 108 million student contact hours of vocational education and training to approximately 514,000 students. This represented an increase of four per cent on the number of contact

\textsuperscript{315} Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.21
\textsuperscript{316} Department of Education and Training response, received 25 March 2004, to the Committee’s follow-up questions, p.2
\textsuperscript{317} Department of Education and Training response, received 17 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.12
\textsuperscript{318} Ibid
\textsuperscript{319} Department of Education and Training response, received 25 March 2004, to the Committee’s follow-up questions, pp.2-3
hours delivered in 2001-02. The reported contact hours of 82.8 million were funded by Government, an increase of 3.2 per cent from 2001. TAFE institutes were responsible for the delivery of over 65 million government funded hours in 2002.

Initiatives that were implemented in 2002-03 for vocational education and training services included:

- the establishment of specialist centres to improve delivery capacity and specialised training to industry clients;
- the establishment of an innovation fund to enable TAFE institutes to trial new initiatives in innovation. During 2002-03, 44 initiatives to the value of $8.5 million were endorsed;
- new training packages; and
- amendment to the Vocational Education and Training (TAFE Qualifications) Act 2003 to allow TAFE institutes to offer a broader range of training products for individuals and industry.

Actual costs incurred by the Department in delivering TAFE outputs amounted to $947.5 million and were marginally below the allocated budget costs of $955.3 million.

The Committee noted the level of satisfaction expressed by TAFE graduates with the quality of training provided by TAFE institutes has declined from 63.5 per cent in 2001-02 to 60.8 per cent in 2002-03. While this outcome reflects a national downward trend, it is important the Department investigate the underlying causes for declining levels of satisfaction with TAFE training services and develop appropriate strategies to address this situation.

320 Department of Education and Training, 2002-03 Annual Report, p.50
321 Ibid, p.52
322 Ibid
323 Ibid, p.54
324 Ibid
325 Ibid
326 Ibid, p.51
The Committee recommends that:

**Recommendation 36:** The Department of Education and Training investigate the underlying factors contributing to declining levels of satisfaction expressed by TAFE graduates with the quality of training provided by TAFE institutes.

### 5.6 Review of governance arrangements

In December 2001, the Government commissioned a review of university governance to examine the accountability of Victoria’s public universities. The review was in response to the concerns expressed by the Victorian Auditor-General regarding the role and accountability of university councils to effectively manage subsidiary companies.\(^{328}\)

The review was finalised in May 2002 and proposed 25 recommendations to strengthen overall governance arrangements in universities. Some of the key recommendations included:\(^{329}\)

- that universities objectives in the relevant university Acts, include serving the public interest by promoting critical inquiry;

- the more comprehensive provisions in some university Acts, protecting against conflicts of interest, be extended to all Victorian universities;

- university councils state explicitly in their annual report of operations that the university allocated its public funds to the purposes specified by the Government or funding body, and that this statement be audited;

- the Government legislate as necessary to remove any doubt in the mandate of the Auditor-General to audit companies that are controlled by Victorian universities but are established overseas;

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\(^{329}\) Ibid
that universities include in their risk management strategies, consultancy services and other commercial activities and consider conducting these activities through entities with limited liability; and

• the Department of Education and Training review the implementation of this review in November 2003.

The Government endorsed all but one of the recommendations of the review in June 2002. The Minister for Education also identified that a number of changes to governance arrangements had occurred since the review. The Committee is aware that universities now have to report on the performance of not only their domestic provision of services, but also any associated and commercial ventures and include a risk management statement in relation to associated and commercial ventures and publicly funded activities.330

Furthermore, the Auditor-General has been given the authority to audit overseas companies controlled by Victorian universities.331

The Committee believes that the implementation of the recommendations of the review is critical to improving the effectiveness of governance arrangements in universities.

The Committee recommends that:

Recommendation 37: The Department of Education and Training:

(a) incorporate in its 2003-04 annual report the status of all recommendations from the review of university governance; and

(b) consider the application of some of the key recommendations of the university governance review to other State educational providers including the Victorian education and training sector.

330 Hon L. Kosky, Minister for Education and Training, 2003-04 Budget Estimates, transcript of evidence, 16 May 2003, p.175
331 Ibid
A review of TAFE governance, encompassing the TAFE governance framework, key governing relationships, legislation and key documents was commissioned by the Department of Education and Training in September 2002. The review was completed in May 2003 and identified a number of areas where governance arrangements could be strengthened.\textsuperscript{332}

The Department indicated that the recommendations of the review are being analysed and prioritised prior to their implementation.\textsuperscript{333}

The Committee recommends that:

**Recommendation 38:** The Department of Education and Training:

(a) ensure that key recommendations of the review of TAFE governance are implemented to enhance accountability and governance arrangements in TAFE institutes; and

(b) incorporate in its 2003-04 annual report the status of all recommendations from the review of TAFE governance.
Report on the 2002-03 Budget Outcomes
Chapter 6: Department of Human Services

Key Findings of the Committee:
6.1. In 2002-03, the total Budget for the Department of Human Services and its agencies, adjusted for the machinery of government changes, was $8,905.5 million. Actual expenditure for the year was $9,438.8 million, $533.3 million or 6 per cent over Budget.

6.2. The Department of Human Services had an operating deficit of $190.2 million in 2002-03, $210 million below the expected result of a surplus of $20.5 million. This was mainly due to higher than expected payments to service providers and employees.

6.3. During 2002-03, the Treasurer approved additional funding of $209.5 million for the Department of Human Services, with $180.8 million used to cover the additional costs arising from enterprise agreement outcomes and related award adjustments.

6.4. At 30 June 2003, the Department employed 11,017 staff, an increase of 4.7 per cent from the previous year.

6.5. There was no disclosure of trust fund transactions in the Department of Human Services’ 2002-03 annual report, despite trust fund revenue and expenditure exceeding $5 billion during the year.

6.6. Employee expenses of $4,466 million in 2002-03 included bonus payments of $2.03 million to departmental staff. The WorkCover premium for the Department was $23.9 million.

6.7. The cost of stress related injury claims for the Department in 2002-03 was $1.5 million, with 126 new claims lodged during the year.

6.8. In 2002-03, expenditure on asset investment projects by the Department of Human Services was $268 million, around 4.3 per cent less than forecast.
Key Findings of the Committee (continued):

6.9. The Department of Human Services largely met its output performance targets included in the 2002-03 Budget Papers.

6.10. The publication in the Department’s annual report of estimated rather than actual performance information for a number of the Department of Human Services’ performance measures is unacceptable. Reporting publicly on the intended and actual results of the Department’s efforts is an important means of achieving the goal of open and accountable Government.

6.11. The number of people presenting to hospital emergency departments exceeded 993,600 in 2002-03, 11.8 per cent higher than expected.

6.12. The increase in funding through the Hospital Demand Management Strategy has been effective in reducing the incidence of ambulance bypasses and waiting times in hospital emergency departments.

6.13. The effectiveness of strategies to address the financial viability of public hospitals will need to continue to be closely monitored by the Department of Human Services.

6.14. The Department of Human Services is currently undertaking a range of evaluation projects to assess the effectiveness of child protection initiatives arising from the 2002-03 Budget.

6.15. The Department of Human Services did not publish details of a consultancy — valued at more than $295,000 — as required by the guidelines issued by the Minister for Finance.
Key Findings of the Committee (continued):

6.16 Indexation arrangements applying to agreements with the Department of Human Services’ service providers threaten to reduce funding in real terms if the escalation factor does not cover increases in the cost of providing services or if providers are unable to find productivity savings in the short-term. A consultancy partly funded by the Department of Human Services, concluded that although productivity improvements were possible in the longer term with appropriate investment, there was limited scope for productivity improvement in the short term.

The Department of Human Services supports the ministerial portfolios of Health, Community Services, Aged Care and Housing. In July 2003, the Biomedical Research output was transferred to the Department of Innovation, Industry and Regional Development.

Almost three-quarters (72 per cent) of the Department’s budget is spent on services provided by external agencies, under funding and service agreements.334 These agencies include metropolitan and rural hospital services, public nursing homes, local government, community health centres, ambulance services and non-government organisations that provide, in the main, welfare services. Services provided directly by the Department include public rental housing, disability services, child protection and juvenile justice services.

6.1 Financial statement analysis

In 2002-03, the total Budget for the Department of Human Services and its agencies, adjusted for the machinery of government changes, was $8,905.5 million. Actual expenditure for the year was $9,438.8 million, $533.3 million or 6 per cent over Budget.

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Higher than expected revenue of 3.6 per cent was largely attributed to a rise in donations, bequests and scholarships ($63.3 million), unbudgeted grants from the Community Support Fund ($69.4 million) and other miscellaneous non-operating revenue ($56.8 million).335

The Committee noted that unbudgeted Commonwealth grants of $65.9 million related to payments made directly by the Commonwealth to Victorian public hospitals. The main areas of funding included the cost of the Pharmaceutical Benefits Scheme and chemotherapy pharmaceuticals provided to patients on discharge ($12.2 million), Community Aged Care Package subsidies ($7.1 million), research grants received directly from the Commonwealth ($11.2 million), regional health services grants ($12.6 million) and other Commonwealth general and capital grants.336

The higher than expected revenue was more than offset by a rise in expenses, resulting in an operating deficit of $190.2 million in 2002-03 (see Exhibit 6.1). The rise in expenses was largely attributable to higher than expected supplies and services payments ($330.3 million) and employee benefits ($317.2 million).337

The Department advised the Committee that lower than expected grants and other payments reflected a change in the treatment of the Government’s contribution to the housing asset program, with $142 million now reported as contributed capital rather than as a capital grant expense in accordance with the Australian Accounting Standards Board Urgent Issues Group Abstract 38 Contribution by Owners to Wholly-Owned Public Sector Entities (UIG 38).338

Given the change in accounting treatment, the Government needs to ensure that, in a note in the financial statements details of the Government’s contribution to the housing asset program are provided.

335 Department of Human Services’ response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.3
336 Department of Human Services’ response, received 11 March 2004, to the Committee’s follow-up questions, p.1
337 Department of Human Services, 2002-03 Annual Report, p.13
338 Ibid, p.3
The Committee recommends that:

**Recommendation 39:** The Budget Papers and the annual report of the Department of Human Services provide adequate disclosure of the Government’s contribution to the housing asset program.

**Exhibit 6.1**

Department of Human Services
Statement of Financial Performance 2002—03

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2–1</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>2002–03</td>
<td>2002–03</td>
<td>Variation (b)</td>
</tr>
<tr>
<td></td>
<td>Adjusted Budget (a)</td>
<td>Actual</td>
<td>($ million)</td>
</tr>
<tr>
<td><strong>Revenue from ordinary activities</strong></td>
<td>($ million)</td>
<td>($ million)</td>
<td>($ million)</td>
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<tr>
<td>Output appropriations</td>
<td>6 879.3</td>
<td>6 965.5</td>
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<td>Special appropriations</td>
<td>1 146.1</td>
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<tr>
<td>Resources received free of charge or for nominal consideration</td>
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<tr>
<td>Sale of goods and services</td>
<td>787.6</td>
<td>821.7</td>
<td>34.1</td>
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<tr>
<td>Commonwealth grants</td>
<td>0.0</td>
<td>65.9</td>
<td>65.9</td>
</tr>
<tr>
<td>Other revenue and revenue from other parties</td>
<td>113.4</td>
<td>305.4</td>
<td>192.0</td>
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<tr>
<td><strong>Total revenue from ordinary activities</strong></td>
<td>8 926.4</td>
<td>9 248.5</td>
<td>322.1</td>
</tr>
<tr>
<td><strong>Expenses from ordinary activities</strong></td>
<td>8 905.9</td>
<td>9 248.5</td>
<td>322.1</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>4 148.7</td>
<td>4 465.9</td>
<td>317.2</td>
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<tr>
<td>Depreciation and amortisation</td>
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<td>248.4</td>
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<tr>
<td>Resources provided free of charge or for nominal consideration</td>
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<td>1.0</td>
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<td>Grants and other payments</td>
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<td>Supplies and services</td>
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<td><strong>Total expenses from ordinary activities</strong></td>
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<td>9 438.8</td>
<td>532.9</td>
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<td><strong>Net result for the reporting period (c)</strong></td>
<td>20.5</td>
<td>-190.2</td>
<td>-210.7</td>
</tr>
</tbody>
</table>

Notes:
(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003
(b) A negative variance indicates there is a Budget surplus for the particular line item
(c) The actual net result for 2002—03 was a deficit

The Department advised the Committee that the additional funds of $322.1 million included Treasurer’s advances of $28.7 million and $180.8 million to cover enterprise agreement outcomes and related award adjustments. Further funds were made available by annotated receipts relating to the National Health Development Program ($19.3 million), the Transport Accident Commission Agreement ($28.4 million) and the Public Health Outcomes Funding Agreement ($35 million). Carryover funding of $30.1 million from 2001-02 was fully applied in 2002-03.

At 30 June 2003, the Department and its Agencies controlled assets valued at around $6.1 billion, an increase of 2 per cent from the adjusted 2002-03 Budget (see Exhibit 6.2).
# Exhibit 6.2

## Department of Human Services

### Statement of Financial Position 2002—03

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
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<tbody>
<tr>
<td></td>
<td>2002–03 Adjusted Budget (a) ($ million)</td>
<td>2002–03 Actual ($ million)</td>
<td>Variation (b) ($ million)</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
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<tr>
<td>Cash assets</td>
<td>285.6</td>
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<td>Other financial assets</td>
<td>404.4</td>
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<td>Receivables</td>
<td>220.5</td>
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<td>Inventories</td>
<td>61.9</td>
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<td>Prepayments</td>
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<td><strong>Total current assets</strong></td>
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<td><strong>Non current assets</strong></td>
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<tr>
<td>Receivables</td>
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<td>Other financial assets</td>
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<td>107.9</td>
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<td>Property, plant and equipment</td>
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<td>Intangible assets</td>
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<tr>
<td>Other</td>
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<td>-1.1</td>
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<td><strong>Total non current assets</strong></td>
<td>4 973.8</td>
<td>5 223.7</td>
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<td><strong>Total assets</strong></td>
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<td>6 077.3</td>
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<td><strong>Current liabilities</strong></td>
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<td>Payables</td>
<td>392.9</td>
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<td>Interest bearing liabilities</td>
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<td>Provisions</td>
<td>501.6</td>
<td>559.1</td>
<td>57.5</td>
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<td>Other</td>
<td>104.1</td>
<td>94.2</td>
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<td><strong>Total current liabilities</strong></td>
<td>1 006.7</td>
<td>1 103.5</td>
<td>96.8</td>
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<td><strong>Non current liabilities</strong></td>
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<td></td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
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<td>Provisions</td>
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<td>Other</td>
<td>113.1</td>
<td>202.7</td>
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<tr>
<td><strong>Total non current liabilities</strong></td>
<td>676.9</td>
<td>870.4</td>
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<td><strong>Total liabilities</strong></td>
<td>1 683.6</td>
<td>1 973.9</td>
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</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>4 276.6</td>
<td>4 103.4</td>
<td>-173.2</td>
</tr>
</tbody>
</table>

**Notes:**

(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003

(b) A negative variance indicates the actual result for the particular line item was below Adjusted Budget

**Sources:**


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341 Ibid, p.5

342 A share of gambling revenue is appropriated to the Department each year, to be paid into the Hospitals and Charities Fund. The shortfall was provided to the Department as a temporary advance.
The Department advised the Committee of the following major reasons for the variations between the adjusted Budget and actual results in 2002-03:\(^{341}\)

- lower than expected cash assets related to reduced cash holdings by hospitals;
- lower than expected receivables related to a shortfall in gambling revenue for the Hospitals and Charities Trust;\(^{342}\)
- additional payables were accrued but not paid relating to wages ($22.6 million), pensioner concessions ($10.3 million) and other expenses ($6 million);
- higher than expected employee entitlements reflected an increase in employee numbers and long service leave entitlements, increases stemming from recent wage agreements and movements in Department of Treasury and Finance discount factors; and
- a reclassification of healthcare insurance between 2001-02 and 2002-03 resulted in a transfer of $76.8 million from other liabilities to interest bearing liabilities. Additional healthcare insurance liabilities of $36.9 million were also incurred in 2002-03.

### 6.1.1 Asset investment program

In 2002-03 the Department was responsible for the management of asset investment projects valued at $1,137 million. The largest single project is the Austin and Repatriation Medical Centre Redevelopment and Mercy Hospital for Women Relocation Project, which has a total estimated investment of over $350 million.\(^{343}\) Additional expenditure of $40 million was approved for the project in 2002-03.\(^{344}\)

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\(^{341}\) Department of Human Services response, received 14 May 2003, to the Committee’s 2003-04 Budget estimates questionnaire, p.64

\(^{342}\) Ibid

\(^{343}\) Budget Paper No. 2, 2002-03 Budget Statement, p.183

\(^{344}\) Ibid


\(^{346}\) Department of Human Services response, received 14 May 2003, to the Committee’s 2003-04 Budget estimates questionnaire, p.71

\(^{347}\) Ibid
The 2002-03 Budget allocated funds to 16 separate projects with a total estimated investment of more than $217 million, of which $79.8 million was expected to be incurred in 2002-03. Excluding the Berwick Community Hospital (see below), the major asset investment initiatives included a residential aged care upgrade and rural health redevelopment and upgrade ($40 million), redevelopment of the Royal Melbourne Hospital ($32 million) and the Angliss Hospital redevelopment ($18.5 million).

The Berwick Community Hospital is being developed under the Partnerships Victoria framework by Progress Health — a consortium of financiers ABN-AMRO, Multiplex Constructions, facility and maintenance manager Multiplex Asset Management and the architects Silver Thomas Hanley Daryl Jackson.

The project involves the private sector designing, constructing, financing and maintaining the hospital facility for 25 years. Services to be provided during the 25 year contract term include: building maintenance, refurbishment, grounds maintenance, security, pest control and car parking.

The Department advised the Committee the construction cost of the project is approximately $80 million. Quarterly service payments to Progress Health are approximately $2.2 million plus refurbishment payments.

Of the Department’s 66 identified asset investment projects, most of the funding ($602 million) was directed towards 28 projects that would result in increased service delivery. The remainder of the asset investment program ($537 million) was allocated to 38 projects that were intended to maintain service delivery.

The Committee noted the Department had forecast expenditure of $280 million on asset investment projects in 2002-03. Actual expenditure was $268 million, around 4.3 per cent less than forecast. Of the Department’s 66 asset investment projects, actual expenditure matched forecast expenditure for 40 projects and expenditure for a further 6 projects was within 10 per cent of Budget.

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350 Ibid, p.64
351 Ibid, pp.63–68
352 Ibid
353 Ibid
354 Ibid
355 Ibid
The Department provided the Committee with an explanation for the variations between forecast and budgeted expenditure in 2002-03 for the remaining 20 projects. Where actual expenditure exceeded forecast expenditure by 10 per cent or more (10 projects), greater than anticipated expenditure was due to project acceleration rather than a reassessment of the total project cost. Projects accelerated in 2002-03 included Disability Services Residential Accommodation ($1.3 million higher than budgeted expenditure), the Royal Dental Hospital redevelopment ($1.2 million), the Colac Hospital redevelopment ($900,000) and a new facility for the Wyndham Community Health Service ($800,000).

The Committee noted that 10 projects contributed to the Department’s $12 million underspend on its asset investment projects in 2002-03. The projects contributing most included:

- Austin Repatriation Mercy Redevelopment ($9.5 million underspend) — due to revised cashflow following contractual agreement with the managing contractor. The completion date for the project was not revised;

- Knowledge Economy Information and Communication Technology for Healthcare ($3.7 million underspend) — due to the impact of planning delays on cashflow. The completion date for the project was not revised;

- Residential Aged Care Strategy Stage 3 ($1.5 million underspend) — due to planning delays. The completion date for the project was not revised; and

- Outer East Service Expansion and Redevelopment Stage 1 ($1.5 million underspend) — due to planning delays. The completion date for the project was changed to December 2003.

6.1.2 Administered items

In 2002-03, the Department was responsible for the administration of revenue of $2,756.6 million, $115.3 million higher than budgeted (see Exhibit 6.3). Administered revenue in 2002-03 largely related to funding under the Commonwealth-State Health Care Agreement ($1.7 billion) and Commonwealth-State Housing Agreement ($207.4 million).
Exhibit 6.3

Department of Human Services
Administered items statement 2002—03

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
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<tr>
<td><strong>2002–03 Adjusted Budget (a)</strong> ($ million)</td>
<td>2002–03 Actual ($ million)</td>
<td>Variation (b) ($ million)</td>
<td></td>
</tr>
<tr>
<td>Administered revenue</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Sale of goods and services</td>
<td>181.9</td>
<td>222.9</td>
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<tr>
<td>Commonwealth grants</td>
<td>2 569.2</td>
<td>2 634.3</td>
<td>65.1</td>
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<tr>
<td>Other grants</td>
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<td>2.5</td>
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<tr>
<td>Fees</td>
<td>2.3</td>
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<td>Other</td>
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<td>0.9</td>
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<td>Other</td>
<td>113</td>
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<td>-6.2</td>
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<td><strong>Total administered assets</strong></td>
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<tr>
<td>Payables</td>
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<td>-0.8</td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
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<td>-6.2</td>
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<tr>
<td>Other</td>
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<tr>
<td><strong>Total administered liabilities</strong></td>
<td>117.7</td>
<td>110.7</td>
<td>-7.0</td>
</tr>
</tbody>
</table>

Notes:  
(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003  
(b) A negative variance indicates the actual result for the particular line item was below Adjusted Budget  
Sources:  

The Department advised the Committee that higher than expected administered revenue relating to the sale of goods and services was due to the introduction of new funding arrangements for compensable patients, whereby Transport Accident Commission payments of around $35 million were made to the Department rather than hospitals. The Department subsequently allocates the funds to hospitals.

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357 Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.6
6.1.3 Trust funds

The Department informed the Committee that it controls or administers 10 trust funds, with the most significant in terms of revenue in 2002-03 being the Hospitals and Charities Fund ($4.8 billion), the Mental Hospitals Fund ($82.4 million), the Treasury Trust Fund ($66.4 million) and the Victorian Health Promotion Fund ($27.1 million).358

The Committee noted that there was no disclosure of trust fund transactions in the 2002-03 annual report of the Department, despite the magnitude of trust fund revenue and expenditure that was processed during the year.

In the report on Parliamentary control and management of appropriations, the Auditor-General recommended that the current annual reporting requirements at a whole of government and departmental level be enhanced to incorporate additional disclosures for trust accounts. Such disclosures could include information about the establishment of new accounts and their purpose, and the closure of existing accounts, together with greater detail about the transactions and balances of trust accounts.359

The Committee agrees with the Auditor-General that the current reporting arrangements for trust funds need to be more transparent.

The Committee recommends that:

Recommendation 40: Financial information relating to each departmental trust fund be summarised in the annual report of the Department of Human Services.

In his report, the Auditor-General questioned what substantive/residual purpose was served by processing hypothecated transactions through the Hospitals and Charities Fund, particularly given that output management now provides the mechanism for resource budgeting, management and reporting.360

The Committee supports the recommendations of the Auditor-General of the need for ongoing assessment and review by individual departments.

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358 Ibid, pp.28–30
359 Victorian Auditor-General’s Office, Report on Parliamentary control and management of appropriations, April 2003, p.77
360 Ibid, p.79
and the Department of Treasury and Finance, in its central agency role, of the relevance and appropriateness of trust funds.

6.1.4 Employee related expenses

The Committee noted that expenses on employee benefits of the Department and its agencies increased from $4,074.5 million in 2001-02 to $4,465.9 million in 2002-03, an increase of 9.6 per cent.\(^{361}\) The actual result in 2002-03 was also 7.6 per cent higher than forecast in the 2002-03 Budget.\(^{362}\)

In 2002-03 the WorkCover premium paid by the Department was $23.9 million.\(^{363}\) The Department of Human Services did not provide information on premium paid for its Agencies (see Chapter 2). The Department advised the Committee the cost of stress related injury claims was $1.5 million in 2002-03, with 126 new claims lodged.\(^{364}\)

The Department advised the Committee it employed 11,017 full-time equivalent employees at 30 June 2003, an increase of 493 employees (5 per cent) from the previous year.\(^{365}\) Around two-thirds of the additional employees were employed on an ongoing basis, with fixed term and casual employees accounting for 27 per cent and 5 per cent of the extra employees respectively.\(^{366}\)

Most of the additional employees were largely based in the Department’s head office (134 extra staff) or in the Eastern Metropolitan Region (109 extra staff).\(^{367}\) Of the Department’s 10 regions, the Grampians region was the only region to reduce its total number of full-time equivalent employees (15 fewer staff).\(^{368}\)

The Committee noted that the total value of performance bonuses paid to employees in 2002-03 by the Department was $2.03 million, of which $931,067 was paid to around 120 Executive Officers.\(^{369}\) The bonus payments for non-executive employees related to performance during 2001-02 and payments were based on assessments of performance.

\(^{361}\) Department of Human Services 2002-03 Annual Report, p.13; Department of Human Services, 2001-02 Annual Report, p.10

\(^{362}\) Department of Human Services, 2002-03 Annual Report, p.13

\(^{363}\) Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.10

\(^{364}\) Ibid

\(^{365}\) Ibid, p.45

\(^{366}\) Ibid

\(^{367}\) Ibid, p.46

\(^{368}\) Ibid

\(^{369}\) Ibid, p.8
against agreed work goals/standards. Only non-executive staff who were rated as ‘Exceeds Requirements’ were paid a bonus.370

In 2002-03, the Department’s non-executive employees largely comprised staff classified as disability development and support officers (38 per cent), Victorian public service officers (37 per cent), Child/adolescent/family welfare officers (14 per cent) and Health and community service workers (6 per cent).371 The Committee was advised the percentage of non-executive staff within each classification level that received bonuses ranged from 0.3 per cent for staff employed in the child/adolescent/family welfare officer level 1 classification to 63 per cent of officers employed in the disability development and support level 5 classification.372

The Committee noted the Department and its agencies employed 119 Executive Officers at 30 June 2003, with three staff employed at the highest level (Executive Officer Band 1).373 A further 39 staff were employed at the Executive Officer Band 2 level and 77 staff were employed at the Executive Officer Band 3 level.374 The Department advised around three quarters of the Department’s Executive Officers received bonus payments in 2002-03. A total of $64,837 was paid to all executives at the Band 1 level, with $328,523 received by 88 per cent of Band 2 executives and $537,707 paid to 68 per cent of Band 3 executives.375

The Department advised the Committee that the standard executive employment contract provides for an annual assessment of an individual’s performance. The executive’s work performance is assessed against the agreed performance plan and rated in accordance with a four level rating scale. Bonuses are only paid where the executive’s performance has been rated as at least ‘Superior’.376

6.2 Output group expenditure analysis

In 2002-03, the Department and its portfolio agencies were responsible for the delivery of 58 outputs (part of 12 output groups), which were

370 Ibid
371 Department of Human Services, 2002-03 Annual Report, p.106
372 Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.8
373 Department of Human Services, 2002-03 Annual Report, p.164
374 Ibid
375 Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.9
376 Ibid
originally budgeted to cost $8,537.9 million (see Exhibit 6.4). The actual cost of $8,779.6 million was 2.8 per cent higher than expected. Most of the increase was due to a further $252 million allocated to same and multi-day hospital services, which experienced an 8.9 per cent increase in demand for services.

Exhibit 6.4

<table>
<thead>
<tr>
<th>Output Group</th>
<th>Column 1 2002-03 Adjusted Budget (a) ($ million)</th>
<th>Column 2 2002-03 Actual ($ million)</th>
<th>Column 2-1 Variation (b) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acute Health Services</td>
<td>4,467.3</td>
<td>4,764.6</td>
<td>297.3</td>
</tr>
<tr>
<td>Ambulance Services</td>
<td>248.9</td>
<td>282.2</td>
<td>33.3</td>
</tr>
<tr>
<td>Mental Health</td>
<td>588.5</td>
<td>614.6</td>
<td>26.1</td>
</tr>
<tr>
<td>Aged and Home Care</td>
<td>679.4</td>
<td>687.5</td>
<td>8.1</td>
</tr>
<tr>
<td>Primary Health</td>
<td>148.3</td>
<td>158.6</td>
<td>10.3</td>
</tr>
<tr>
<td>Dental Health</td>
<td>84.0</td>
<td>88.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Public Health and Drugs</td>
<td>253.4</td>
<td>289.2</td>
<td>35.8</td>
</tr>
<tr>
<td>Disability Services</td>
<td>766.5</td>
<td>798.1</td>
<td>31.6</td>
</tr>
<tr>
<td>Community care</td>
<td>576.2</td>
<td>588.5</td>
<td>12.3</td>
</tr>
<tr>
<td>Concessions to Pensioners and Beneficiaries</td>
<td>284.7</td>
<td>215.7</td>
<td>-69.0</td>
</tr>
<tr>
<td>Housing Assistance</td>
<td>440.7</td>
<td>292.1</td>
<td>-148.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,537.9</strong></td>
<td><strong>8,779.6</strong></td>
<td><strong>241.7</strong></td>
</tr>
</tbody>
</table>

Note: (a) Incorporates changes to output structure and organisational restructuring  
(b) A negative variance indicates there is a Budget surplus for the particular line item  
Sources: Budget Paper No. 3, 2003-04 Budget Estimates, p.60; Department of Human Services, 2002-03 Annual Report, pp.41–86

The Department advised the Committee of the following reasons for significant variances:

- **Acute Health Services** — the increase of $297.3 million primarily reflects wage award movements and other expenses funded from hospitals’ commercial operations;

- **Ambulance Services** — the increased funding of $33.3 million was due largely to one-off budget adjustments to take account of employee entitlements and counter terrorism funding ($21.5 million);

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377 Budget Paper No. 3, 2002-03 Budget Estimates, p.61  
378 Department of Human Services, 2002-03 Annual Report, p.41  
379 Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.2 and pp.11–18; Department of Human Services, 2002-03 Annual Report, pp.41–86
Primary Health — increases (10.3 million) related to wage award increases and funding transfers from the Community Health Care output to the Primary Health Service System Development and Resourcing output;

Public Health and Drugs — the increased funding ($35.8 million) for immunisation (relating mainly to Meningococcal C — $25.3 million) is decided on an annual basis through the Public Health Outcomes Funding Agreement;

Disability Services — additional funds of $31.6 million included transfers from the Community Care output group ($2.7 million) and Aged and Home Care output group ($2.1 million), increases in award wages, adjustments to output costing attribution and other funding initiatives;

Concessions to Pensioners and Beneficiaries — lower than expected payments of $69 million reflects the reporting arrangements in the Budget Papers, which includes $64.3 million for transport concessions provided through the Department of Infrastructure. When this is excluded, the variation between budgeted and actual expenditure on concessions by the Department was 2.1 per cent. Variations in expenditure above or below projections relate to changes in demand from year to year; and

Housing Assistance — the difference between budgeted and actual expenditure ($148.6 million) mainly reflected the adoption of the Australian Accounting Standards Board UIG 38, where the Government’s contribution towards assets ($142 million in 2002-03) is now reported as contributed capital rather than output funding. The Committee was advised that this change has no impact on the amount of funds appropriated to Housing.

6.3 Performance information

The Committee noted that the Department achieved most of its performance targets across its 58 outputs in 2002-03. Explanations for some of the more significant variations from targets are presented in Exhibit 6.5.
### Exhibit 6.5

#### Output performance  Department of Human Services

<table>
<thead>
<tr>
<th>Output/measure</th>
<th>Target 2002–03</th>
<th>Actual 2002–03</th>
<th>Explanation for performance variation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Admitted services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hospital in home bed days (no.)</td>
<td>135,000</td>
<td>158,815</td>
<td>Performance has increased every year with a current tendency to plateau. The result in 2002-03 represents an increase of 16 per cent over the previous year, compared to 24 per cent at the end of 2001-02.</td>
</tr>
<tr>
<td>Per cent time on hospital bypass</td>
<td>3.0</td>
<td>1.9</td>
<td>Performance in this indicator improved and is below target despite the continuing rise in emergency demand. This is a result of successful implementation of the Hospital Demand Management Strategy in 2002-03.</td>
</tr>
<tr>
<td><strong>Emergency services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency department presentations (no.)</td>
<td>889,000</td>
<td>993,645</td>
<td>The number of patients presenting to emergency departments grew by 5 per cent in 2002-03. This rate of growth was slightly less than the 7 per cent growth in the previous year. The reasons for this continuing growth include an ageing population, reduced access to GPs and falling levels of bulk-billing in general practice.</td>
</tr>
<tr>
<td><strong>Sub-acute care services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Completed post acute episodes (no.)</td>
<td>29,500</td>
<td>34,519</td>
<td>There has been an increased demand mainly in the metropolitan area for post acute services, in line with the increase in separations.</td>
</tr>
<tr>
<td>Patients contacted within 3 days of referral (per cent)</td>
<td>70</td>
<td>87</td>
<td>Community Rehabilitation Centres have improved operational processes to ensure that clients are contacted within this timeframe. This has been reinforced as good process within draft service guidelines. As majority of services have now implemented processes to meet this output, the target is proposed to be raised to 90 per cent.</td>
</tr>
<tr>
<td><strong>Ambulance emergency services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country road cases (no.)</td>
<td>81,000</td>
<td>89,967</td>
<td>Caseload was influenced to a larger extent than could be predicted from the historical data by the increase in ambulance utilisation during the influenza season in the second half of the year.</td>
</tr>
<tr>
<td>Output/measure</td>
<td>Target 2002–03</td>
<td>Actual 2002–03</td>
<td>Explanation for performance variation</td>
</tr>
<tr>
<td>----------------</td>
<td>----------------</td>
<td>----------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td><strong>Ambulance non-emergency services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed wing cases (no.)</td>
<td>4,100</td>
<td>4,348</td>
<td>Reflects a greater usage for non-emergency services, offsetting the lower usage for emergency services.</td>
</tr>
<tr>
<td><strong>Aged care assessment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average wait (days) between client registration and ACAS assessment — community-based assessment</td>
<td>15</td>
<td>16.7</td>
<td>Community-based assessment is primarily a Commonwealth funded program. In the past Commonwealth funding has not kept up both with population increases and the indexation required to maintain the professional staffing profile specified in the Commonwealth Guidelines. The result is that the ACAS program has difficulty maintaining the staffing EFT required to meet demand in a timely fashion. The Commonwealth Government announced increased funding nationally to address some of these issues in 2003-04. However, ACAS clients are tending to be more complex so that on average assessments take longer to complete. This leads to longer waiting times particularly in non-hospital settings.</td>
</tr>
<tr>
<td><strong>Aged support services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal alert units allocated (no.)</td>
<td>14,100</td>
<td>16,300</td>
<td>Partly reflects expansion of personal alert units during 2002-03.</td>
</tr>
<tr>
<td><strong>Dental services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratio of emergency to general course of dental care</td>
<td>49:51</td>
<td>59:41</td>
<td>Waiting times for preventative care have lengthened and this has resulted in an increase in the demand for emergency care.</td>
</tr>
<tr>
<td>Waiting time for restorative dental care (months)</td>
<td>22</td>
<td>26</td>
<td>Longer waiting times are due to the continuing impact of loss of Commonwealth funding, increased demand for more complex and lengthy treatment as the population ages and more people within the eligible population retain their teeth and public dental work force shortages.</td>
</tr>
<tr>
<td>Waiting time for dentures (months)</td>
<td>24</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td><strong>Primary health service system development and resourcing</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Better Health Channel Internet Sessions (no. visits)</td>
<td>1,440,000</td>
<td>5,100,000</td>
<td>Performance higher than expected due to continued growth of the Better Health Channel traffic and public health concerns, including SARS during 2002-03.</td>
</tr>
<tr>
<td>Better Health Channel Internet Inquiries (no. page views)</td>
<td>5 million</td>
<td>16 million</td>
<td></td>
</tr>
<tr>
<td><strong>Disease prevention, control and maintenance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Needles provided through the Needle and Syringe Program (no.)</td>
<td>4,000,000</td>
<td>5,587,950</td>
<td>Higher demand due to increased heroin availability and injecting of other drugs including prescription drugs.</td>
</tr>
<tr>
<td>Output/measure</td>
<td>Target 2002–03</td>
<td>Actual 2002–03</td>
<td>Explanation for performance variation</td>
</tr>
<tr>
<td>----------------------------------------------------</td>
<td>----------------</td>
<td>----------------</td>
<td>--------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Drug prevention and control</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inspected restaurants, cafes and dining areas</td>
<td>75</td>
<td>91</td>
<td>Increase in 2002-03 outcome due to better than anticipated compliance with legislation.</td>
</tr>
<tr>
<td>areas complying with smoke free dining (per cent)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Drug treatment and rehabilitation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Episodes of care — Residential-based drug treatment</td>
<td>6,700</td>
<td>5,178</td>
<td>The reduction is the result of changes in the counting rules for this measure. The actual outcome for 2002-03 excludes unsuccessful attempts at treatment.</td>
</tr>
<tr>
<td>services (no.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Episodes of care — Community-based drug treatment</td>
<td>35,800</td>
<td>30,352</td>
<td>The reduction is the result of changes in the counting rules for this measure. The actual outcome for 2002-03 excludes unsuccessful attempts at treatment.</td>
</tr>
<tr>
<td>services (no.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average working days between screening of a client</td>
<td>9</td>
<td>4</td>
<td>Within residential drug services, there has been a change in the service mix with an increase in &quot;short stay&quot; withdrawal services, and a decrease in &quot;longer stay&quot; rehabilitation services. This, together with the reduction in demand from the heroin drought, has resulted in lower than expected waiting times in residential services.</td>
</tr>
<tr>
<td>and commencement of residential-based drug treatment (no.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Health and social development</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>People who have undertaken funded health promotion training or a professional development program (no.)</td>
<td>450</td>
<td>400</td>
<td>Some development programs (for an additional 125 people) were deferred to the beginning of 2003-04.</td>
</tr>
<tr>
<td><strong>Food and activity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food safety program templates registered (no.)</td>
<td>10</td>
<td>16</td>
<td>The number of new templates registered is a factor of industry need and demand and is likely to decrease significantly now that the system is bedded down and a total of 28 templates are available.</td>
</tr>
<tr>
<td><strong>Housing assistance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crisis supported and transitional housing properties acquired during the year (no.)</td>
<td>235</td>
<td>260</td>
<td>Of the additional 25 targets, 9 of these targets were identified as carry forward targets that had not been achieved in the 2001/02 financial year. In addition to the above, 16 Public Housing targets in rural areas were transferred to the Transitional Housing Management (THM) program due to limited private rental market opportunities in the specified areas. These additional targets were utilised to meet demand for THM accommodation in the South Eastern metropolitan growth corridor.</td>
</tr>
<tr>
<td>Output/measure</td>
<td>Target 2002–03</td>
<td>Actual 2002–03</td>
<td>Explanation for performance variation</td>
</tr>
<tr>
<td>----------------</td>
<td>----------------</td>
<td>----------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>Average waiting time for those who have received early housing allocation (months)</td>
<td>4</td>
<td>5.5</td>
<td>Increased demand for early housing and lower stock turnover has imposed severe stress on available vacancies. Demand management measures will be implemented to address waiting time issues in 2003-03.</td>
</tr>
<tr>
<td>Long term housing assistance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint venture units delivered during the year (no.)</td>
<td>215</td>
<td>176</td>
<td>All 215 units were fully committed during 2002-03. However, delays in the completion of units were experienced, reflecting the lead times associated with joint venture construction projects and delays experienced in a small number of projects around various stages of the development process. These included execution of legal agreements, approval of planning permits, execution of building contracts, and delays in the construction process itself in some cases.</td>
</tr>
<tr>
<td>Early childhood services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of maternal and child health line calls</td>
<td>52,800</td>
<td>62,737</td>
<td>The variance between the target and the actual performance is related to the implementation of a new Client Enquiry Recording Enhancement System in October 2002 to accurately record and report on detailed information related to callers to the service. It is also related to the expansion of the telephone service from 6.00am to 6.00pm and 12.00am to 12.00pm to a 24 hour service in November 2001.</td>
</tr>
<tr>
<td>Family and community support</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial counselling clients receiving initial response within 5 working days (per cent)</td>
<td>95</td>
<td>64.7</td>
<td>The initial performance target was an estimate and set in mid 2001-02. Following the introduction of a new computerised data collection system in 2002-03, actual case based data was used to measure agency performance. The high level of demand for these services limit the ability of agencies to respond to clients within five working days. The 2003-04 target has been revised to 60 per cent to be more reflective of the service response and achievable performance.</td>
</tr>
</tbody>
</table>
### Output/measure

<table>
<thead>
<tr>
<th>Output/measure</th>
<th>Target 2002–03</th>
<th>Actual 2002–03</th>
<th>Explanation for performance variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child protection and placement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investigations commencing within 14 days of notification (per cent)</td>
<td>&gt;95</td>
<td>72.8</td>
<td>This is a new performance measure. The purpose of this indicator is to monitor the timeliness of decision making in response to notifications, and the subsequent commencement of a direct investigation where appropriate. The initial target was established at 95 per cent in 2002-03 and was adjusted to 90 per cent in 2003-04. The target provides a challenging goal for performance improvement. The Department is making a significant effort into improving performance to meet this goal across all regions.</td>
</tr>
<tr>
<td>Intake assessment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eligibility assessments completed per annum (no.)</td>
<td>1,000</td>
<td>1,107</td>
<td>The number of eligibility assessments completed since the first quarter of 2002 had stabilised in the next three quarters, with actuals closer to quarterly targets. Additional recurrent funds were allocated in the initial 2002-03 budget which resulted in a higher end of year performance than anticipated.</td>
</tr>
<tr>
<td>Eligibility assessments undertaken within 30 days (no.)</td>
<td>75</td>
<td>90</td>
<td>Additional recurrent funds were allocated in the initial 2002-03 budget resulting in improved performance in undertaking these assessments within the target number of 30 days. As the results of this measure had shown improved performance each quarter in 2002-03, the target was increased to 90 per cent in 2003-04.</td>
</tr>
<tr>
<td>Planning and coordination</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General service plans completed per annum (no.)</td>
<td>2,300</td>
<td>3,555</td>
<td>Performance in each quarter of 2002-03 was higher than anticipated, mainly due to the emphasis placed in reviewing plans as a result of the Auditor-General’s report. Higher than expected case management numbers had also increased the number of plans completed. The target has been increased to 3,000 in 2003-04 to reflect the improved performance in 2002-03.</td>
</tr>
<tr>
<td>Average case management waiting time (days)</td>
<td>60</td>
<td>41</td>
<td>The actual result indicates a shorter waiting period which is desirable. Overall, performance in case management assessments and allocation to services has improved and as a result the target has been reduced to 55 days in 2003-04.</td>
</tr>
</tbody>
</table>

Source: Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.18–23
The Department provided further information to the Committee on the differences between the actual and targeted performance for the Dental Services and Long Term Housing Assistance outputs. In both of these areas, the Department has faced significant funding pressures due to the expiry in 1997 of the Commonwealth’s agreement with Victoria whereby the Commonwealth provided funds for the public dental program in conjunction with no additional funding for housing assistance over the five years commencing 2003–04.380

The Committee noted that the Department identified demand for more complex and lengthy treatment as contributing to an increase in waiting times for restorative and other dental care.381 The Department advised the Committee that it had implemented a range of new initiatives in 2002-03 to address dental health demand and workforce shortages including:

• expanding access to public dental services by commissioning new clinics in Wyndham, Omeo and PANCH Health Service and completing the $52 million relocation and rebuilding of the Royal Dental Hospital;

• implementing the Oral Health Promotion Strategy;

• implementing the Geriatric Dentistry Action Plan;

• implementing the Dental Workforce Strategy, including a new multi-employer certified agreement for dentists and specialists, rural incentives for dentists, 6 scholarships for undergraduate dental students who will work in rural areas, and mentor scheme for new graduates;

• providing an additional 17,200 treatments in the Community Dental Program;

• funding eight Best Practice Grants targeting clinical and professional development and service planning;

• developing the Public Dental Quality Action Plan, which consolidates continuous quality improvement initiatives within the public dental sector; and

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381 Department of Human Services, 2002-03 Annual Report, p.49
382 Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.37
• commencing the development of a fairer approach to waiting list management, which includes a new triaging system; consolidating/centralising waiting lists to eliminate duplication; auditing waiting lists; and promoting water fluoridation.

The Department provided the Committee with additional information relating to the Housing Assistance output, identifying three critical factors contributing to the increase in demand for early housing:

(a) removal of the market rent test — the primary factor that has caused increased demand for early housing allocation since 2001. A significant increase in new applications for early housing occurred between September 2001 and late 2002. Since April 2003, there has been a consistent downward trend in early housing waiting times, which was 4.8 months for the year to date as at October 2003. The removal of the market rent test has relieved undue stress on households in crisis, who were previously ineligible for assistance and supports the Government’s commitment to house those in greatest need;

(b) longer term demand and affordability in the private rental market — in the longer term, there has been an increase in demand for early housing assistance and public housing in general since the early 1990s. It is believed that this trend has been influenced by decreasing affordability in the private rental market, particularly in inner and middle Melbourne. Private market rents in Melbourne have increased at a higher rate than the Consumer Price Index since 1995.

Commonwealth rent assistance payments have not increased by as much as the costs of private rental accommodation. This culminates in reduced accessibility at the bottom end of the market and is a factor driving Victorian households with high needs to apply for early housing assistance; and

(c) falling vacancy rates and slow growth in public housing stock numbers — increases in waiting times for early housing allocation can also be attributed to fewer people exiting public

383 Ibid, p.55
384 The market rent test required a person to have five applications for private rental properties rejected within a fortnight in order to qualify for priority public housing. The test was abolished in August 2001 (Source: Hon. B. Pike, MP, Minister for Housing, media release, Demoralising Homelessness test to go — Pike, 3 August 2001)
housing, reducing available places for new applicants. The lower level of vacancies is considered to be due to both decreasing options in the lower end of the private rental market, as well as the increased level of allocations to clients with complex needs.

The Department advised the Committee that high need clients allocated through the early housing waiting list segments tend to remain in public housing, on average, longer than clients allocated under the wait turn segment. The Department is also operating within a constrained acquisition budget due to lower levels of Commonwealth State Housing Agreement funding. Lower levels of new stock acquisition therefore limit the capacity of the Office of Housing to meet increased demand without significant increases in public housing supply.385

6.3.1 Benchmarking performance measures

The Department advised the Committee that some performance measures included in the Budget Papers were based on national benchmarks.386

The Committee considers that the use of performance measures based on national benchmarks provides an important insight into the effectiveness of government programs in Victoria compared to other jurisdictions. The use of such measures can assist policy makers and service providers to determine whether further improvements are achievable, based on the experiences of other jurisdictions and the availability of resources.

Whilst comparisons with other jurisdictions will always need to take account of data definitions and reporting methods, the Committee encourages the Department to continue efforts to include relevant measures that are based on national benchmarks. The Committee noted that there are instances where the current use of national benchmarks as performance measures by the Department may need to be reviewed.

For example, the Department used a measure ‘Tenants satisfied or very satisfied (measured by national customer satisfaction surveys)’ for the Long Term Housing Assistance Output, which was expressed as a per cent of the national average.387 Against this measure, performance relative to the national benchmark appears to have improved (see Exhibit 6.6).

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385 Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire.
386 Ibid, pp.16–18
387 Budget Paper No. 3, 2002-03 Budget Estimates, p.101
Exhibit 6.6

Department of Human Services
Public housing tenant satisfaction 2002—03

<table>
<thead>
<tr>
<th></th>
<th>2000-01</th>
<th>2001-02</th>
<th>2002-03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenants satisfied or very satisfied (measured by national customer satisfaction surveys) (a)</td>
<td>89</td>
<td>94.25</td>
<td>96</td>
</tr>
<tr>
<td>Tenant satisfaction — Australia (b)</td>
<td>70</td>
<td>69</td>
<td>68.4</td>
</tr>
<tr>
<td>Tenant satisfaction — Victoria (c)</td>
<td>62</td>
<td>65</td>
<td>63.4</td>
</tr>
</tbody>
</table>

Notes:  
(a) Measured as a per cent of the national average  
(b) Tenants satisfied or very satisfied (per cent of survey respondents). The national average was calculated as simple numerical average due to a lack of raw data  
(c) Tenants satisfied or very satisfied (per cent of survey respondents)  
Sources: Department of Human Services Annual Reports, 2002-03 (p.61), 2001-02 (p.60), 2000-01 (p.74); Steering Committee for the Review of Government Service Provision, Report on Government Services 2004, January 2004, Canberra, Table 16A.14

The use of a performance measure expressed as a per cent of the national average masks performance at a Victorian level. The Committee notes that the improvement relative to the national average in 2002-03 was due to the decline in satisfaction at a national level being larger than the decline in Victoria, rather than an improvement in satisfaction in Victoria.

While the Committee supports the Department’s efforts to incorporate national benchmarks as part of its suite of performance measures, it believes that the Department’s performance measure does not accurately reflect efforts to improve the quality of the Department’s public housing programs.

The Committee recommends that:

**Recommendation 41:** The Department of Human Services include in the Budget Papers and in its annual report performance information on the level of tenant satisfaction at the Victorian level, as well as performance information relative to the national benchmark, for the Long Term Housing Assistance Output.
6.3.2 Estimates of actual performance

The Committee noted that results for some of the Department’s performance measures were reported as estimates in its 2002-03 annual report, with agencies still to confirm actual performance for 30 measures in 4 output groups including:

- Disability services (16 measures);
- Aged and home care (5 measures);
- Primary health (5 measures); and
- Public health and drugs (4 measures).

The Committee is concerned that the Department’s 2002-03 annual report, which was tabled in Parliament on 30 October 2003, was not able to provide actual data for some performance measures for a period ending four months earlier.

Following a request from the Committee, on 12 February 2004 the Department provided actual results for all of these performance measures except for the Disability Services output group. The actual results for these measures were not significantly different to estimates provided by the Department in the annual report. The Department advised the Committee that as at 12 February 2004, actual data for 2002-03 for the Disability Services output group was unavailable due to delays in agency reporting. The Committee noted that the Department was currently working with the sector to collect required information.

As at 24 March 2004, the Department advised the Committee that approximately 70 per cent of agencies funded under the Disability Services output group had provided 2002-03 performance information.

The Committee is very concerned that performance information for 16 measures in the Disability Services output group (reported to cost
$798.1 million in 2002-03),\textsuperscript{394} was still not available more than eight months after the end of the period to which the data relates.

While the Committee is reassured that the estimates provided by the Department do not significantly vary from published estimates, the Committee believes that untimely provision of performance information weakens current accountability arrangements. The Minister for Finance’s directions applying to annual reports provide that Departments must include in their annual report a comparison of the output targets specified in the State Budget with actual performance against those targets.\textsuperscript{395}

The Committee recognises that the Department relies on a large number of contracted agencies to provide performance information relating to outputs. However, the Committee believes that the Department must review data collection arrangements with its service providers to ensure that performance related information is available for inclusion in the Department’s annual report.

Performance information provides valuable information to the Parliament about the business and performance of government. It is equally crucial for the Department’s own management systems to include timely performance information to ensure that decision making is well informed. It is therefore essential that the intended and actual results of the Department’s efforts are included in their annual report, inclusive of performance information collected from agencies providing services under contract to the Department.

A well-informed Parliament can better serve the public it represents if it has the information it needs for meaningful public debate, decision-making and accountability.

The Committee recommends that:

\textbf{Recommendation 42:} The Department of Human Services review existing data collection arrangements to ensure that actual and targeted performance information for all outputs is included in its annual report.

\textsuperscript{394} Department of Human Services, 2002-03 Annual Report, pp.83–86

\textsuperscript{395} Department of Treasury and Finance, Minister for Finance Directions, Reporting requirements in terms of Part 7 of the Act, s.9.1.2(iii)
The timely provision of performance data is also an issue in the quarterly revenue certification process, whereby the Treasurer formally applies appropriations from the Consolidated Fund to Departments. The Committee noted that the Auditor-General found that a significant number of key performance measures reported by the Department were only available on an annual or six-monthly basis, and that performance in relation to those measures is not able to be assessed on a quarterly basis.

The Committee intends to further examine practices relating to the use of performance measures in the revenue certification process as part of its follow-up report into the Auditor-General’s April 2003 Report on Parliamentary control and management of appropriations.

6.3.3 Revising performance targets

The Committee noted that the Department has revised targets in 2003-04 for a number of performance measures including:

- eligibility assessments undertaken within 30 days (Intake Assessment output) — target revised from 75 per cent 2002-03 to 90 per cent in 2003-04, actual performance in 2002-03 was 90 per cent;

- general service plans completed per annum (Planning and Coordination output) — target revised from 2,300 in 2002-03 to 3,000 in 2003-04, actual performance in 2002-03 was 3,555;

- average case management waiting time (Planning and Coordination output) — target revised from 60 days in 2002-03 to 55 days in 2003-04, actual performance in 2002-03 was 41 days;

- financial counselling clients receiving initial response within 5 working days (Family and Community Support output) — target revised from 95 per cent in 2002-03 to 60 per cent in 2003-03, actual performance in 2002-03 was 64.7 per cent; and

- investigations commencing within 14 days of notification (Child Protection and Placement output) — target revised from

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396 Auditor-General Victoria, Report on Parliamentary control and management of appropriations, April 2005, p.46
397 Ibid, p.80
>95 per cent in 2002-03 to 90 per cent in 2003-03, actual performance in 2002-03 was 72.8 per cent.

In three cases the revised targets represent a higher level of targeted performance. The Committee noted that two of these measures were introduced as part of the 2002-03 Budget and three were introduced in the 2001-02 Budget.

The Committee believes that parliamentary appropriations for each output are provided on the basis that resources are sufficient to meet targeted performance. Whilst the Committee recognises that performance targets should represent achievable outcomes, the Committee believes that any revision to targets — especially those relating to service quality and timeliness — must also consider what changes to administrative practices or additional resources are required if the original performance targets are to be met. In such circumstances, decision-makers are better able to make judgements about the possible trade-offs between resources and outcomes.

6.4 Major issues

The Committee identified a number of issues relating to the Department arising from the 2002-03 Budget.

6.4.1 Hospital demand management strategy

The Hospital Demand Management (HDM) Strategy was established in October 2000 to manage the growth demands and capacity constraints within the Victorian public health system. In 2001-02, the strategy funded the Metropolitan Health Service and Barwon Health to develop and implement over 80 projects in the areas of prevention, substitution, improving patient flows and the acute/sub-acute service interface. \(^{399}\) The strategy was allocated a further $113 million in the 2002–03 Budget ($464 million to 2005-06). \(^{400}\)

The Committee noted that key aspects of the strategy are: \(^{401}\)

- creating extra capacity through funding growth;

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399 Department of Human Services 2002, Hospital demand management strategy 2001-02: Summary of findings from project annual reports, p.1
400 Budget Paper No. 2, 2002–03 Budget Statement, p.176
401 Department of Human Services 2002, Hospital demand management strategy 2001-02: Summary of findings from project annual reports, p.2

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• relieving pressure on acute hospital beds and emergency departments through diversion to alternative options for care where clinically appropriate;

• working with clinicians to achieve better patient management practices through negotiation of a tailored response for each hospital;

• improving working conditions that will attract and retain nurses; and

• implementing a prevention strategy to reduce the demand pressures on hospitals (known as the Hospital Admission Risk Program (HARP)).

The Department advised the Committee that some of the key impacts of the strategy on overall performance and the performance across health services in 2002-03 included:

• a decrease in the incidence of hospital bypass from 3,529 bypasses in 2000-01 to 1,541 bypasses to 2001-02 (a decrease of 56 per cent). This improvement continued in 2002-03 with only 1,089 bypasses (a further 29 per cent reduction in hospital bypass from 2001-02);

• the proportion of patients admitted within 12 hours increased from 84 per cent in 2000-01 to 85 per cent in 2001-02 (representing an additional 15,272 patients). This improvement continued in 2002-03 with an increase to 87 per cent (a further 10,444 patients admitted within 12 hours);

• Over 4,000 equivalent full-time nurses were employed between June 2000 and June 2003. The Department estimated that there was a net addition of almost 630 equivalent full-time nurses employed in public hospitals and aged care centres in 2002-03; and

• a 6.4 per cent increase in patients treated, with a 2.3 per cent increase in bed days from July 2002 to June 2003 compared with 2001-02.

402 Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.48–49

403 Department of Human Services response, received 14 May 2003, to the Committee’s 2003-04 Budget Estimates Questionnaire, p.42
A summary of findings for projects initiated under the HDM Strategy in 2001-02 noted that although the positive impact of the projects on demand management was demonstrated by the improvement in selected key performance indicators, most projects had not undergone formal evaluation and, with one or two exceptions, the data has not been subject to statistical analysis.\footnote{Department of Human Services, \textit{Hospital demand management strategy 2001-02: Summary of findings from project annual reports}, November 2002, p.1} The Department expected that, as projects evolve and data collection systems improve, there will be a greater emphasis on more rigorous and consistent reporting of indicators and a capacity to more directly compare the impact and outcome of projects between hospitals.\footnote{Ibid, p.2}

The Committee noted that 102 new projects were initiated under the strategy in 2002-03. Of these, 51 projects were funded through the Hospital Admission Risk Program (HARP), which implements prevention strategies to reduce demand pressure on hospitals, by averting unnecessary and/or preventable use of hospital emergency departments and inpatient services.\footnote{Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.46–48} Total funding for new projects in 2002-03 was $86.9 million, which was mainly allocated to initiatives to treat additional patients (see Exhibit 6.7).\footnote{Department of Human Services, Health Fact Sheet various, \textit{Hospital Demand Management Strategy 2002-03}, http://www.health.vic.gov.au/hdms/hdmstrat.htm, accessed 25 February 2004} The Department advised that a further 101 projects initiated in 2001-02 received continued funding.\footnote{Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.46–48}
Exhibit 6.7

Hospital Demand Management Strategy allocation to new projects 2002-03

The Committee welcomes the increase in numbers of patients treated in public hospitals and notes the claimed positive achievements of the HDM strategy initiatives in improving the capacity and quality of hospital services. The Committee encourages the Department to continue to report annually on the effectiveness of projects implemented at each metropolitan health service so this information can be taken into account in developing future demand management initiatives.

The Committee recommends that:

**Recommendation 43:** The Department of Human Services:

(a) continue to report annually on the effectiveness of projects implemented under the hospital demand management strategy at each metropolitan health service; and

(b) undertake more formal evaluations of the projects funded under the strategy.
6.4.2 Financial viability of public hospitals

In the Auditor-General’s November 2003 Report on Public Sector Agencies, he advised that the financial position for some hospitals at the end of 2002-03 had deteriorated compared to the previous year. The Report concluded that 15 public hospitals were showing signs of financial difficulty, with unfavourable results in all four indicators used to make the assessment. A further 22 hospitals had unfavourable results in at least two of the indicators used.

The Auditor-General conducted a similar analysis of the financial viability of public hospitals in previous years, with the results suggesting that the number of hospitals operating under financial difficulty has increased over the last few years. The Committee noted that the Department, in response to the Auditor-General’s comments, believes that the analysis is potentially misleading in illustrating signs of financial difficulty. The primary reason is that the operating results as presented by the Auditor-General include the treatment of depreciation and funding for new capital works.

The Department funds major new capital works and major items of equipment as these items are required by individual hospitals, and not on the basis of an average annual provision. Consequently, the operating result prior to extraordinary items as presented by the Auditor-General will move up and down depending on the extent of capital grants provided to an individual hospital in a particular financial year. The operating result, prior to funding for capital purposes and extraordinary items, may also be confusing, as although the capital grants funding has been eliminated, the depreciation expense remains included.

The Department believes that it is better to eliminate both depreciation and capital funding from the operating result, so that non-capital operating revenue is matched against non-capital operating expenditure prior to extraordinary items.

409 Victorian Auditor-General’s Office, Report on Public Sector Agencies, November 2003, p.82
410 Ibid
413 Victorian Auditor-General’s Office, Report on Public Sector Agencies, February 2003, pp.118–120
414 Ibid
415 Ibid
The Auditor-General considered that the omission of depreciation illustrated the shortcomings of the current method of funding hospitals. By not providing the funding equivalent of the cost of depreciation to each hospital, the service capacity of hospitals may not be maintained. The current arrangements confuse funds required for new capital works that increase service capacity with funds for renewals and replacements. The former require full business cases to support new capacity whereas the latter should be managed by hospitals in line with asset replacement plans.416

The Department’s adjustment to the overall financial performance of public hospitals is presented in Exhibit 6.8. The adjusted results reveal that the adjusted deficit for public hospitals in 2002-03 was $102.5 million.

**Exhibit 6.8**

Aggregated financial standing of public hospitals 30 June 2003

<table>
<thead>
<tr>
<th>As at 30 June 2003</th>
<th>Auditor-General’s analysis</th>
<th>Adjusted for capital works and depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net operating deficit as reported in annual reports</td>
<td>-72.7</td>
<td>-72.7</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latrobe Regional Hospital — net assets received free of charge (a)</td>
<td>-34.8</td>
<td></td>
</tr>
<tr>
<td>Southern Health forgiveness of lease liability</td>
<td>-13.5</td>
<td></td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital purpose income</td>
<td></td>
<td>-219.7</td>
</tr>
<tr>
<td>Interest on capital fund</td>
<td></td>
<td>-1.4</td>
</tr>
<tr>
<td>Proceed from sale of fixed assets</td>
<td></td>
<td>-53.6</td>
</tr>
<tr>
<td>Assets received and forgiveness of liability (net) (b)</td>
<td></td>
<td>-52.3</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>215.1</td>
<td></td>
</tr>
<tr>
<td>Written Down Value of assets sold</td>
<td>59.0</td>
<td></td>
</tr>
<tr>
<td>Land/building decrement/write off</td>
<td>13.5</td>
<td></td>
</tr>
<tr>
<td>Infrastructure grants wrongly classified</td>
<td>9.6</td>
<td></td>
</tr>
<tr>
<td>Adjusted deficit</td>
<td>-121.0</td>
<td>-102.5</td>
</tr>
</tbody>
</table>

Notes: (a) These items excluded by the Auditor-General are included in (b) (b) Includes items excluded by the Auditor-General in (a)


The Committee notes that, irrespective of the approach adopted to measure the financial performance of hospitals, there was a substantial shortfall in resources provided to public hospitals in 2002-03.
The Committee noted that the Department undertook a number of activities in 2002-03 aimed at addressing the financial viability concerns faced by public hospitals including:417

- implementing a financial sustainability strategy to address the immediate financial viability concerns faced by major metropolitan and rural hospitals;
- establishing a central purchasing agency to achieve cost savings for public hospitals for medical, pharmaceutical and prosthetic supplies; and
- providing funding over the next four years for information and medical technologies to improve the efficiency of public hospitals.

While the Committee welcomes the additional resources allocated to public hospitals and the positive outcomes that have been reported as flowing from recent initiatives, particularly the Hospital Demand Management Strategy, it is concerned that services at individual hospitals will be affected if issues relating to funding deficits are not addressed. At the 2004-05 Budget estimates hearings, the Committee intends to review the effectiveness of these strategies in improving the financial viability of Victorian hospitals.

The differences between the analysis of the Auditor-General and the Department highlights one of the shortcomings of the current funding arrangements — whereby Departments are funded for the full cost of service delivery, including depreciation, but do not necessarily pass on funding for depreciation to individual agencies.

One effect of these funding arrangements is that the absence of a direct link to a financial assessment based on an accrual accounting framework creates confusion about what is the ‘true’ financial state of some government-funded agencies. The current funding arrangements reduce the ability of public sector managers to effectively plan for the maintenance and replacement of assets because decisions about renewals or replacements are generally made outside the agency. This can directly affect the quality of services provided if assets are not replaced in a timely manner.

417 Ibid, p.87
The Committee noted that the Government adopted all of the recommendations of a review of governance arrangements for public hospitals undertaken in 2002-03.418 One of the review panel’s recommendations was that, on the basis of discussions with the Auditor-General, boards and hospital chief executive officers, the issues of depreciation cost funding and capital investment should be included on the work plan of the Health System Improvement Board.419

The Committee intends to further examine depreciation funding arrangements as part of its follow-up review of the Auditor-General’s report on Parliamentary control and management of appropriations.

6.4.3 Enhancing child protection and placement services

The 2002–03 Budget allocated $15 million in 2002–03 ($60 million to 2005-06) for the enhancement of child protection and placement services.420

The Department advised the Committee that the activities funded under the initiative in 2002-03 included:421

- supporting vulnerable families innovation projects ($3.7 million) — establishment of six local government based and two Koori based innovation projects;

- intensive treatment service ($5 million) — funding was used to develop the specification for and to tender the intensive therapeutic service, to fund improvements to child protection information systems and to provide services to children and young people who have suffered abuse;

- Aboriginal Protocol ($600,000) — establishment of the Aboriginal child specialist advice and support service, which commenced operations in October 2002;

- recruitment of an additional 60 child protection and support workers ($4.2 million) — achieved by December 2002;

418 The Victorian Public Hospital Governance Reform Panel, August 2003, p.62
419 Ibid
420 Budget Paper No. 2, 2002–03 Budget Statement, p.176
421 Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.40
• additional resources to fund growth in the kinship care and permanent care placements ($1.2 million) — funded an additional 220 placements; and

• Child Protection Service Improvements ($300,000) — commencement of improvements to the statewide child protection after hours service were achieved by June 2003.

The Committee noted that actual expenditure on the initiatives had been in line with expectations for all activities except for the intensive placement service.\textsuperscript{422} The Department advised that the extensive establishment, recruitment and development costs were completed during 2002-03 with full operations commencing in January 2004.\textsuperscript{423}

The annual reports of the six innovation projects revealed that there was widespread understanding of the different issues facing child protection by government and non-government agencies operating within each location.\textsuperscript{424} The Committee noted that, although each report examined local issues and outlined existing service systems and changes to support services as a result of the innovation project, not all reports detailed achievements against a range of similar performance targets.

The Committee welcomes the early positive results achieved by several innovation projects including:

• the number of Aboriginal and Torres Straight Islander notifications in the Greater Shepparton area in 2002-03 was 11.1 per cent lower than the previous year;\textsuperscript{425}

• the number of renotifications in the Central Goldfields region declined from 144 in 2001-02 to 118 in 2002-03;\textsuperscript{426} and

• the number of first time notifications in the Ballarat local government area declined from 404 in 2001-02 to 296 in 2002-03.\textsuperscript{427}

\textsuperscript{422} Ibid, pp.40–41
\textsuperscript{423} Ibid, p.40
\textsuperscript{424} These annual reports are available on the Department of Human Services website: http://www.dhs.vic.gov.au, accessed 14 April 2004
While the Committee appreciates that these projects are at an early stage of implementation, it believes that collection and consistent reporting of common performance measures (including funding contributions) in all innovation project annual reports will enhance the reporting framework for the initiative.

The Committee noted that La Trobe University had commenced a two and a half year evaluation of the innovation projects in September 2003.428 Under the timeframe for the evaluation, a report would be prepared in November each year between 2003 and 2005 examining the progress of innovation projects up to 30 June in each of these years.429 The University has also been contracted to undertake an evaluation of the therapeutic intensive treatment program.430

The Committee welcomes the Department’s evidence-based approach to evaluating the effectiveness of the innovation projects and intensive treatment service. The Committee looks forward to examining the results of the evaluations when they become available.

The Committee noted that the overall movement in child protection notifications and substantiations in Victoria was the reverse of movements across Australia in 2002-03. At a national level, the number of notifications rose by 43.8 per cent and the number of substantiations increased by 32.6 per cent compared to the previous year.431 In contrast, the number of notifications in Victoria declined by 0.9 per cent and the number of substantiations fell by 5.2 per cent.432

Numbers reported at the national level were partly influenced by legislative and reporting changes in NSW, which resulted in the number of notifications almost doubling between 2001-02 and 2002-03. The Committee noted that when NSW was excluded, the number of notifications and substantiations at a national level increased by 7.4 per cent and 8.2 per cent respectively.433

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432 Ibid
433 Ibid
6.4.4 KPMG consultancy  Productivity and Pricing Project

The Committee noted that the Department of Treasury and Finance let and managed a community sector contract with KPMG Consulting in late 2002 to undertake a project which involved:434

- identification of key cost drivers of service provision; and

- identification of opportunities for and constraints on productivity improvements in non-government agencies.

The Department of Human Services advised the Committee that the cost of the consultancy was $296,178 (including GST).435 The Committee noted that the Department of Human Services’ contribution to the consultancy was $196,178 (66.2 per cent), with the balance ($100,000) contributed by the Department of Treasury and Finance.436

The Committee noted that neither the Department of Human Services nor the Department of Treasury and Finance reported the KPMG consultancy in the relevant sections of their 2002-03 annual reports.437

In response to the Committee’s query about why the details of the consultancy were not reported, the Department of Human Services advised that ‘since the contract for the project was let and managed by [the Department of Treasury and Finance], reporting arrangements are a matter for that Department’.438

The Committee is concerned that the current arrangements relating to the disclosure of consultancies valued at more than $100,000 create uncertainty for Departments, where a consultancy is jointly funded.

The Committee notes that the Minister for Finance’s Directions relating to annual reporting applying in 2002-03 included guidelines on the disclosure of consultancies costing more than $100,000. These guidelines state that ‘a schedule listing the consultant engaged, particulars of the

435 Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.46
436 Department of Human Services’ response, received 11 March 2004, to the Committee’s follow-up questions
437 Department of Human Services, 2002-03 Annual Report, p.167; Department of Treasury and Finance, 2002-03 Annual Report, p.101
438 Department of Human Services’ response, received 11 March 2004, to the Committee’s follow-up questions

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projects involved, the total fees incurred and future commitments in relation to each consultant’ be included in annual reports.

The Committee believes the wording of the Minister for Finance’s Directions makes it clear the onus is on the Department that is the legal party to the contract to make this disclosure in their annual report. The Committee also believes that, in the case of the KPMG consultancy, while the contribution of the Department of Human Services was more than 50 per cent of the value of the contract, the onus was on the Department of Treasury and Finance, as the legal party to the contract, to disclose the full cost of the consultancy ($296,178). The Committee is concerned that non-disclosure of the consultancy by the Department of Treasury and Finance on the basis that its contribution ($100,000) falls under the threshold of disclosure (more than $100,000) is not in accordance with the directions.

The Committee has a general concern about the level of accountability and transparency that applies to consultancies jointly funded by Departments, whether they involve a single Department as a party to a consultancy contract (with indirect funding by other Departments) or whether multiple Departments are direct signatories to consultancy contracts. For example, under the current arrangements, the Committee notes that a single consultancy of $1 million can be awarded but no public disclosure made, if all 10 Departments were a signatory to the contract and all contributed $100,000. In effect, arrangements of the above nature clearly undermine the intent of the Directions of the Minister for Finance to publicly disclose all consultancy arrangements exceeding $100,000 across government.

The Committee believes the directions should be revised to remove ambiguities about which Department or Departments are required to disclose details of consultancies valued at more than $100,000.
The Committee recommends that:

**Recommendation 44:** The Department of Treasury and Finance amend the Model Financial Report for Victorian Government Departments to require each Department contributing to a jointly funded consultancy over the value of $100,000 to disclose in their annual reports both the total value of the consultancy and the Departments’ contribution to the total value of the consultancy.

The Committee is also concerned that there is some ambiguity over whether the consultancy disclosure requirements apply to the cost of consultancy inclusive or exclusive of GST. The Committee noted that the consultancy disclosure requirements included in the Directions of the Minister for Finance were introduced prior to the introduction of the GST in July 2000.

The Committee noted that the current practice of disclosure by Departments and agencies of contracts valued at more than $100,000 includes the value of contracts exclusive of GST (for example, Department of Treasury and Finance 2001-02 annual report, p.104), inclusive of GST (for example, Department of Infrastructure 2002-03 annual report, p.144) or without noting whether GST has been included (for example, Department of Human Services 2002-03 Annual Report, p.167).

The Committee believes that the issue of whether the $100,000 threshold is inclusive or exclusive of GST needs to be clarified to ensure that Departments report on a consistent basis. The Committee believes that the total cost of the consultancy inclusive of GST should form the basis of the $100,000 threshold as it represents the actual cost of the consultancy to an agency.
The Committee recommends that:

**Recommendation 45:** The *Standing Directions of the Minister for Finance* relating to the disclosure of consultancies valued at more than $100,000 be amended to specify that the $100,000 threshold for disclosure is inclusive of GST.

The Department advised the Committee that some of the major findings of the KPMG consultancy report included:

- service type, number of clients and client needs (including complexity) are the major cost drivers for non-government organisations;
- the non-government sector has absorbed a number of costs over recent years and is subject to continuing external pressures on costs which are largely beyond individual agencies’ control (e.g. increasing client complexity and dependency, increased expectations regarding standards of care and individualised approach to client support, and staff skill development);
- there was limited scope for productivity in the short term; and
- productivity may be achievable in the longer term with appropriate investment (amount unspecified).

The Committee is aware that the Department has been involved in negotiations with the Victorian Council of Social Services since May 2003 to develop 3-year funding agreements with the non-government sector. The Department advised the Committee that the Government had approved an increase in funding for community sector organisations of 6.9 per cent over the next three years. The non-government organisation price (NGO) index developed as part of the new arrangements provides for 2.4 per cent in 2003-04, 2.25 per cent in 2004-05 and 2.25 per cent in 2005-06.

The Department advised the Committee that 3-year funding agreements are a response to a long-standing call from non-government organisations.

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439 Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.46–47
440 Ibid
441 Ibid
organisations and peak bodies to make funding more predictable. While there is an ongoing expectation that government departments and funded agencies will look for ways to improve service efficiency, the Department claims that the index will maintain funding in line with economic forecasts outlined in the Victorian budget.442

The Committee noted that the Department has established a Community Sector Investment Fund to support improved sustainability and viability of community-based organisations. The initial allocation to the fund is $7 million which can be used for both capital and recurrent purposes. An advisory group comprising both government and community representatives has been established to provide advice on priorities for investment.443

The Committee noted that the Department of Treasury and Finance’s 2003-04 budget forecasts estimated that the consumer price index would increase by 2.25 per cent each year from 2003-04 to 2006-07 and the wage cost index would increase by 3.5 per cent each year over the same period.444 The forecast increase in wages — usually the most substantial component of labour intensive community services — is higher than the indexation that will be applied to service agreements over the next three years.

The Committee noted that in nominal terms, funding for disability services has increased by $101 million (14.5 per cent) since June 2001.445 Funding for early childhood services and family and community services increased by 10.8 per cent and 35 per cent respectively over the same period.446

While the Committee welcomes the Department’s allocation of additional funds to support community organisations, it is concerned that the indexation arrangements may not keep pace with the cost of delivering services. With minimal scope for productivity savings in the short term, the Committee believes that reductions in the real level of funding may adversely impact on the effective delivery of services.

442 Ibid
443 Ibid
445 Department of Human Services, Annual Reports, 2002-03 (pp.83–86); 2001-02 (pp.70–73); 2000-01 (pp.60–62)
446 Ibid, 2002-03 (p.72); 2001-02 (p.81); 2000-01 (p.51)
The Committee recommends that:

**Recommendation 46:** The Department of Human Services monitor the cost pressures facing its contract providers to deliver services in accordance with their service agreements.

### 6.4.5 Juvenile justice reform strategy

The Committee noted that the Government had provided $34.2 million over four years beginning 2001–02 to fund the Juvenile Justice Reform Strategy. The strategy focuses on the diversion of low-risk young people from entering the juvenile justice system, strengthening the rehabilitation of high-risk young offenders and the expansion of pre-release, transition and post-release support for young offenders in custody.447

The Department advised the Committee that initiatives under the strategy include the extension of the adult court advice service to all adult courts as well as targeted programs for Aboriginal and Vietnamese/Cambodian young people. The initiatives aimed to expand existing rehabilitation programs for addressing offending behaviour and substance abuse. Additional funding was also provided to pre-release, transition and post-release support including youth parole supervision and pre-release community housing programs for young men in custody.448

The Committee noted that the Department had four strategies in place in 2002-03 to reduce the rate of juveniles re-offending:449

- family group conferencing — expansion of a pilot initiative to include all Melbourne metropolitan youth courts and selected youth courts in the Hume and Gippsland Regions;
- better identification of risk — all juvenile justice clients have an individual assessment and case plan to guide their rehabilitation while they are on a supervised court order. Through this process, issues that increase an individual’s risk of re-offending are identified and addressed;

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447 Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.50
448 Ibid
449 Ibid
• introduction of a new drug policy and strategy — the Department is developing an overarching drug policy and strategy document for the juvenile justice program and has recently undertaken a review of the pharmacotherapy program; and

• continuation of the male adolescent program for positive sexuality, an intensive group treatment program for adolescent males who have been found guilty of a sexual offence.

The Committee noted that the levels of participation in the strategy were demonstrated by several broad new performance measures included in the Budget Papers for the juvenile justice services output. The cost of the output has increased from $57.5 million in 2000-01 to $65.9 million in 2002-03.450

Exhibit 6.9

Juvenile justice services  Selected performance measures 2000-01 to 2002-03

Notes:  (a) Targeted performance for post-release support activity participation in 2000-01 was 40 per cent. The target was revised to >80 per cent in the 2001-02 Budget  
(b) Occupancy rate = the level of occupancy in a facility as a percentage of the maximum level for which the facility was designed to accommodate  

Sources:  Department of Human Services, Annual Reports, 2002-03 (p.73); 2001-02 (p.82); 2000-01 (p.52)
The Department also advised that other indicators of the success of the strategy included a reduction in the number of Vietnamese young people receiving custodial sentences from 41 in 1998-99 to 17 in 2002-03. The significant reduction in the Juvenile Justice Centre population had allowed for the closure of the outdated ‘Class A’ facility at the Melbourne Juvenile Justice Centre.452

While the Committee welcomes the improvements to juvenile justice outcomes as a result of the Juvenile Justice Reform Strategy, it noted that the Department did not revise performance targets for some output performance measures following the implementation of the strategy. For example, the target for centre occupancy rate remained unchanged at 80 per cent over the period.453 Performance targets that were changed in 2001-02 to reflect a higher quality of performance included post-release services participation, the completion of client service plans and participation in pre-release support services.454

Where the resources available to provide services change, or there is an expectation that performance will change as a result of changes to service delivery, the Committee believes that the Department should adjust targets based on anticipated improvements in performance, rather than assessing its performance relative to targets that were based on fewer resources or different practices in service delivery.

The Committee noted that the Department changed several performance measures for juvenile justice services in the 2003-04 Budget, including redefined occupancy rates for junior and senior clients, a new quantity measure for participation in community-based orders and an increase in the post-release participation target from 80 per cent to 90 per cent.455

The Committee encourages the Department to continue to review performance targets to ensure that they accurately reflect the Department’s performance expectations.

The Committee noted that the Department commissioned a Rehabilitation Review during 2002-03 to provide a framework for an ongoing work program to build on current good practice, based on an up-to-date international and national review of best practice in offender

451 Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.51
452 Ibid
453 Department of Human Services, Annual Reports, 2002-03, p.73; 2001-02, p.82; 2000-01, p.52
454 Ibid
rehabilitation. The report of the review was submitted to the Department in January 2003. The Department advised that initial exploratory work had commenced on issues highlighted in the review including a best practice case management framework, a monitoring and evaluation framework and specific program initiatives such as a program for working with violent offenders.

The Committee looks forward to seeing how these new initiatives and frameworks will affect future juvenile justice services outcomes.

6.4.6 Measuring the performance of Mental Health Services

The 2002-03 Budget provided an additional $61 million over four years for growth in key mental health service types and for new initiatives designed to address gaps in the demand system. The funding allocation of $15 million in 2002-03 included:

- $4 million to re-open approximately 30 acute inpatient psychiatric beds to deal with current demand and expected demand growth in 2002–03;

- $6.32 million to expand adult and aged clinical community services and psychiatric disability support services;

- $2.76 million to pilot ‘sub-acute’ services in Melbourne and a regional centre. A total of 30 shortstay sub-acute places will be involved in the pilot projects;

- $1.16 million to provide clinical and support services linked to 50 Office of Housing properties that have been prioritised for people with mental illness, and to assist the implementation of the Rooming House Plus Project;

- $360,000 for two pilot programs providing innovative dual diagnosis services to young people who have both mental illness and a drug abuse problem; and

- $400,000 for a rural workforce initiative to enhance professional supervision and secondary consultation for clinical staff in rural mental health services.

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456 Department of Human Services response, received 11 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.52

457 Ibid

458 Department of Human Services, New Directions for Victoria’s mental health services, September 2002, p.15
The additional funds allocated to mental health services in 2002-03 resulted in total funding for mental health services increasing to $614.6 million, up from $541.9 million in 2000-01 and $588.5 million in 2001-02.\(^{459}\)

The Committee noted that the Department has refined its performance measures for mental health services in the last few years, with an increasing emphasis on quality of service outcomes — such as the timeliness of individual client plans completed and clinical staff successfully completing courses — away from quantity-based measures, such as registered clients or treatment capacity.\(^{460}\)

While the Committee believes that changes to the Department’s performance measures for mental health services contain some improvements compared to previous measures, it considers that the current measures may not capture the impact of recent initiatives and further efforts should be made to introduce more outcomes-focused measures. The Committee noted that the Department is currently involved in a project to assess the routine measurement of clinical outcomes into all public clinical mental health services in Victoria, with the aim of fostering an ethos of continuous quality improvement across the services as well as providing managers and planners with more evidence based data.\(^{461}\) Statewide roll-out of routine outcome measurement commenced in June 2003.\(^{462}\)

The Committee welcomes the Department’s efforts to collect information on the quantity and quality of mental health services. Where possible, the Committee encourages the Department to consider including relevant outcome performance information in its annual report and as part of the Budget Papers.

\(^{459}\) Department of Human Services, Annual Reports, 2002-03, p.45; 2001-02, pp. 32–33; 2000-01, p.38
\(^{460}\) Ibid
The Committee recommends that:

**Recommendation 47:** The Department of Human Services include more informative outcome based performance measures for mental health services in its annual report and as part of the Budget Papers.
Chapter 7: Department of Infrastructure

Key Findings of the Committee:

7.1 The total Budget for the Department of Infrastructure and its agencies, adjusted for the machinery of government changes, was $2,829.9 million in 2002-03. Actual expenditure for the year was $2,615.3 million, $214.6 million or 7.6 per cent below Budget.

7.2 The Department of Infrastructure had an operating deficit of $78.5 million in 2002-03, which was $254.3 million below the 2002-03 budgeted surplus of $175.8 million. This was due mainly to a $250.6 million write off of CityLink assets which were created and acquired by the State but written off in accordance with accounting standards to reflect Transurban's `control' of these assets.

7.3 During 2002-03, the Treasurer approved additional funding of $41.5 million to cover mainly additional costs relating to bus contracts, compensation to the Docklands Authority and the electricity tariff network rebate.

7.4 Employee expenses of $286.3 million in 2002-03 were $62.7 million higher than the 2002-03 adjusted Budget. The Department and VicRoads paid staff performance bonuses of $3.4 million. The Department and VicRoads WorkCover premium for 2002–03 was $3.8 million.

7.5 Expenditure on the Department’s asset investment program in 2002-03 was $411 million, which was $147 million lower than expected. Most of the underspending related to funds allocated to the Scoresby Transport Corridor ($87 million — now incorporated into the Mitcham–Frankston Freeway) and two projects on hold subject to agreement being reached with the Commonwealth Government and other stakeholders ($36 million — standardisation of regional freight lines and the Wodonga rail freight and urban redevelopment).
Key Findings of the Committee (continued):

7.6 There was no disclosure of trust fund transactions in the 2002-03 annual report of the Department of Infrastructure, despite revenue and expenditure exceeding $1 billion during the year.

7.7 The Department of Infrastructure largely achieved or exceeded its output performance targets set out in the 2002-03 Budget Papers.

7.8 The Multi-Purpose Taxi Program received additional funding in the 2002-03 Budget of $7.2 million and further funding of $2 million, by way of a Treasurer’s advance. The Department of Infrastructure has introduced a range of technology-based measures to assist in identifying suspected fraudulent claims.

The Department of Infrastructure supports the ministerial portfolios of Transport; Major Projects; Energy Industries; and Information and Communication Technology.

The Department experienced significant changes to its responsibilities as a result of the machinery of government changes in December 2002. The Department of Infrastructure assumed the additional responsibilities of strategic advice on energy policy from the former Department of Natural Resources and Environment and the activities of Multimedia Victoria from the Department of Innovation, Industry and Regional Development. Responsibilities covering local government were transferred to the Department for Victorian Communities and the planning, heritage and building functions were transferred to the Department of Sustainability and Environment.463

7.1 Financial statement analysis

The total Budget for the Department of Infrastructure and its agencies, adjusted for the machinery of government changes, was $2,829.9 million in 2002-03.464 Actual expenditure for the year was $2,615.3 million, $214.6 million or 7.6 per cent below Budget.465

The Department and its agencies reported an operating deficit of

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464 Ibid, p.160
465 Department of Infrastructure, 2002-03 Annual Report, p.136
$78.5 million in 2002-03, instead of the expected $175.8 million surplus (see Exhibit 7.1). The operating deficit was mainly attributed to $250.6 million of CityLink assets which were created and acquired by the State but written off in accordance with accounting standards to reflect Transurban’s ‘control’ of these assets as part of the CityLink project.466

Exhibit 7.1

<table>
<thead>
<tr>
<th>Department of Infrastructure and Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of Financial Performance</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>2002–03 Adjusted</strong></td>
</tr>
<tr>
<td><strong>Budget (a)</strong></td>
</tr>
<tr>
<td>Revenue from ordinary activities</td>
</tr>
<tr>
<td>Output appropriations</td>
</tr>
<tr>
<td>Resources received free of charge or for nominal consideration</td>
</tr>
<tr>
<td>Sale of goods and services</td>
</tr>
<tr>
<td>Commonwealth grants</td>
</tr>
<tr>
<td>Taxes</td>
</tr>
<tr>
<td>Fines</td>
</tr>
<tr>
<td>Other revenue and revenue from other parties (c)</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Expenses from ordinary activities</td>
</tr>
<tr>
<td>Employee benefits</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
</tr>
<tr>
<td>Grants and other payments</td>
</tr>
<tr>
<td>Capital asset charge</td>
</tr>
<tr>
<td>Supplies and services</td>
</tr>
<tr>
<td>Borrowing costs</td>
</tr>
<tr>
<td>Other expenses</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Net result for the reporting period (d)</td>
</tr>
</tbody>
</table>

Notes:
(a) Adjusted for machinery of Government changes for the period 1 January 2003 to 30 June 2003
(b) A negative variance indicates there is a Budget surplus for the particular line item
(c) Included in the actual result for 2002-03 was an amount associated with the write-off of the CityLink assets ($253.4 million)467
(d) The actual net result for 2002-03 was a deficit

Source: Department of Infrastructure, 2002-03 Annual Report, p.136

466 Ibid, p.49
467 Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.5
The Department advised the Committee that the write-off of CityLink assets created and acquired by the State, including Stateworks ($156.9 million), bridges ($47.5 million) and surplus land ($2.9 million), was required to reflect Transurban’s maintenance responsibility and control of these assets as part of the CityLink project in accordance with Australian Accounting Standards. In addition, land under roads valued at $46 million that formed part of the CityLink project was written down to nil value under accounting standards. Whilst the CityLink project was completed during 2000-01, resolution of all property and other matters culminated in the finalisation of the Transurban lease during 2002-03 and therefore the change of control took effect in 2002-03.

The Department advised the Committee of the following major reasons for the variation between the adjusted Budget and actual results in 2002-03 for several items including:

- sale of goods and services — revenue earned by VicRoads for regulatory, licence and other fees and transfers from local governments exceeded expectations. Additional revenue was also received for public transport services, particularly metropolitan bus services;

- other revenue and revenue from other parties — additional revenue of $135 million was received in lieu of a performance bond as a result of National Express (a public transport franchisee) going into receivership. The Department received lower than expected Spencer Street Station building rental and signage income ($30.5 million), following the announcement that the project would proceed as a ‘Partnerships Victoria’ project; and

- the increase in revenue was offset by an expense of $253.5 million associated with the write-off of CityLink assets created and acquired by the State that were not included in the Budget estimates.

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468 Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.31; Stateworks are works that the State undertook in relation to CityLink that Transurban did not perform (Department of Infrastructure response, received 23 March 2004, to the Committee’s follow-up questions)

469 Ibid

470 Ibid, pp.4–5
Employee expenses of $286.3 million in 2002-03 were 28 per cent higher than budgeted. The Committee noted the number of departmental employees declined by 122 in 2002-03, largely due to the machinery of Government changes.\textsuperscript{471} The Department advised the Committee that higher than expected expenses were largely the result of an actuarial recalculation of VicRoads’ superannuation liability.\textsuperscript{472} The Committee noted that employee related expenses in 2002-03 included WorkCover premiums of $3.8 million and staff performance bonuses of $3.4 million.\textsuperscript{473}

The Committee noted that the Department had received $94.9 million in 2002-03 in addition to its 2002-03 budgeted appropriation of $2,883.5 million.\textsuperscript{474} Additional funds of $41.5 million advanced by the Treasurer included supplementary funding for bus contracts ($14.5 million) to meet the full impact of indexation provisions under the bus services contracts, compensation to the Docklands Authority in recognition of the lost opportunity to recoup sunk costs for the Spencer Street Station area ($11 million) and for the electricity network tariff rebate ($8 million), which was an administered transaction for the Department.\textsuperscript{475} Other amounts provided by the Treasurer’s advance largely related to interstate train services ($2.8 million), the Multi-Purpose Taxi Program ($2 million) and rail services insurance payments ($1.2 million).\textsuperscript{476}

The Department advised the Committee that the total parliamentary authority in 2002-03 included a carry over under s.32 of the \textit{Financial Management Act} 1994 of $86.7 million, of which $21.1 million was included in the Budget estimates.\textsuperscript{477} The carried over funds were almost entirely applied in 2002-03, with most funds relating to the statewide road blackspot output ($20.3 million), regional fast rail projects ($29 million), country passenger rail services ($8.4 million), the Melbourne Airport Transit Link project ($8.4 million) and rail gauge standardisation works ($4.7 million).\textsuperscript{478}

The Committee noted that the Department’s total parliamentary

\begin{thebibliography}{9}
\bibitem{471} Department of Infrastructure, 2002-03 Annual Report, p.140
\bibitem{472} Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.4–5
\bibitem{473} Ibid, pp.10–11
\bibitem{474} \textit{Budget Paper No. 3, 2003-04 Budget Estimates}, p.164
\bibitem{475} Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.26–28
\bibitem{476} Ibid
\bibitem{477} Ibid, p.25
\bibitem{478} Ibid, p.29
\end{thebibliography}
authority in 2002-03 included a temporary advance under s.35 of the Financial Management Act 1994 of $21.4 million. These funds were fully applied in 2002-03 on asset projects relating to bushfire recovery ($3.4 million), regional fast rail insurance costs ($11.3 million) and for the re-phasing of regional fast rail cashflows ($6.7 million).

At 30 June 2003 the Department and its agencies controlled assets valued at around $17.8 billion, an increase of 2.1 per cent compared to the adjusted Budget (see Exhibit 7.2).

**Exhibit 7.2**

<table>
<thead>
<tr>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002–03</td>
<td>2002–03</td>
</tr>
<tr>
<td></td>
<td>Adjusted Budget</td>
<td>Actual</td>
</tr>
<tr>
<td></td>
<td>$ million</td>
<td>$ million</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>85.7</td>
<td>59.9</td>
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<tr>
<td>Other financial assets</td>
<td>35.0</td>
<td>64.0</td>
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<tr>
<td>Receivables</td>
<td>70.9</td>
<td>81.9</td>
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<tr>
<td>Inventories</td>
<td>7.4</td>
<td>8.2</td>
</tr>
<tr>
<td>Prepayments</td>
<td>2.9</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>201.9</td>
<td>216.3</td>
</tr>
<tr>
<td><strong>Non current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>336.9</td>
<td>583.0</td>
</tr>
<tr>
<td>Inventories</td>
<td>5.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>3,621.7</td>
<td>3,736.3</td>
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<tr>
<td>Property, plant and equipment</td>
<td>13,278.7</td>
<td>13,266.3</td>
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<tr>
<td>Intangible assets</td>
<td>10.4</td>
<td>9.3</td>
</tr>
<tr>
<td>Other</td>
<td>0.3</td>
<td>0.0</td>
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<tr>
<td><strong>Total non current assets</strong></td>
<td>17,253.4</td>
<td>17,598.8</td>
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<tr>
<td><strong>Total assets</strong></td>
<td>17,455.3</td>
<td>17,815.1</td>
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<tr>
<td><strong>Current liabilities</strong></td>
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<tr>
<td>Payables</td>
<td>302.9</td>
<td>335.3</td>
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<tr>
<td>Provisions</td>
<td>58.4</td>
<td>61.1</td>
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<tr>
<td>Other</td>
<td>20.3</td>
<td>10.9</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
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<td>407.3</td>
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<tr>
<td><strong>Non current liabilities</strong></td>
<td></td>
<td></td>
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<tr>
<td>Interest bearing liabilities</td>
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<td>15.3</td>
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<tr>
<td>Provisions</td>
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<td>489.0</td>
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<tr>
<td>Other</td>
<td>0.5</td>
<td>4.9</td>
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<tr>
<td><strong>Total non current liabilities</strong></td>
<td>440.2</td>
<td>509.2</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>821.8</td>
<td>916.5</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>16,633.5</td>
<td>16,898.7</td>
</tr>
</tbody>
</table>

Notes:  
(a) Adjusted for machinery of Government changes for the period 1 January 2003 to 30 June 2003  
(b) A negative variance indicates the actual result for the particular line item was below Adjusted Budget

Source: Department of Infrastructure, 2002-03 Annual Report, p.137

479 Ibid, p.25  
480 Ibid, p.26
The Department advised the Committee of the following major reasons for the variation between the adjusted Budget and actual results in 2002-03:

- cash assets — VicRoads’ cash balance declined by $40 million which was mainly attributed to additional payments to creditors, resulting in a reduction in creditors from $68.7 million in 2001-02 to $50.6 million in 2002-03;
- other financial assets — increase reflects higher Public Transport Fund term deposits;
- receivables — non-current receivables increase due to higher trust fund balances for Better Roads Victoria and the Public Transport Fund due to the timing of cash disbursements;
- payables — the level of payables fluctuates from year-to-year in accordance with transaction levels; and
- provisions — an actuarial recalculation of the unfunded superannuation liability for VicRoads resulted in a $40 million increase. Long service leave payable after 12 months was also $9.2 million higher than forecast.

7.1.1 Asset investment program

The Committee noted that the Department and VicRoads were currently responsible for the administration of an infrastructure program (including federally-funded projects) with an estimated value of around $2.7 billion, with projects valued at around $2.5 billion related to road additions and improvements. This does not include an allocation of $1 billion in the 2002-03 Budget for the Scoresby Transport Corridor project, which was combined with the Eastern Freeway extension into the Mitcham–Frankston Freeway project in April 2003.

The development of the Mitcham–Frankston Freeway project as a tollway is currently being assessed as a Partnerships Victoria project and is estimated to cost around $2 billion.
The infrastructure asset program includes a number of initiatives announced in the 2002-03 Budget, including the redevelopment of Spencer Street Station, Craigieburn rail electrification and an upgrade of the Warrnambool rail line.486

The Committee noted that actual expenditure on asset investment projects for the year ended 30 June 2002 was $614 million. Actual expenditure in 2002-03 was $411 million, 26.3 per cent lower than expected.487 Around $87 million of budgeted funds that were unspent in 2002-03 related to the Government’s decision to amalgamate the Scoresby Freeway project with the Eastern Freeway Tunnels project into the Mitcham–Frankston Freeway project.488

Other projects contributing to the underspend that were part of the 2002-03 Budget were the Wodonga rail freight and urban redevelopment ($19.3 million) and rail standardisation of regional freight lines ($16.6 million). The Department advised the rail standardisation projects were on hold pending Commonwealth and private contributions.489 The Committee noted that the Wodonga rail bypass project had experienced delays because agreement had to be reached with Freight Australia and other stakeholders on the standardisation of the north-west and north-east lines.490

The Department advised the Committee that it had carried over around $205 million in appropriation funding to 2003-04.491 Output funding carried forward to 2003-04 included statewide blackspot funding of $15 million and Commonwealth funding of $64.3 million for national highways. Most of the funding carried forward for additions to the net asset base related to regional fast rail projects ($45.6 million), the Wodonga rail bypass ($19.4 million) and the Telecommunications Purchasing and Management Strategy ($14.7 million).492

The Committee noted six projects had been completed ahead of schedule including the Goulburn Valley Highway section 3 (Murchison East

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486 Budget Paper No. 2, 2002-03 Budget Statement, p.189
487 Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, attachment 2
488 Ibid
489 Ibid
490 Department of Infrastructure, 2002-03 Annual Report, p.36
491 Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.27
492 Ibid
Deviation Construction), Calder Highway (Carlsruhe) and various road safety initiatives.\footnote{Ibid, attachment 4}

The Department advised the Committee that delays of less than six months had been experienced for ten projects. Revised completion dates of six months or more than originally anticipated included:\footnote{Ibid}

- works to restore passenger rail services to Ararat and Bairnsdale — repairs to Ararat junction and additional trackwork including further sleeper replacement on Bairnsdale line (mid 2003 to first quarter 2004);
- Melton Highway stage 2 to Beatty’s Road Sydenham — large number of service relocations took longer than estimated (March 2002 to December 2002); and
- Box Hill tram line extension — delayed due to land acquisition and service relocation works (December 2002 to May 2003).

The timely completion of the Department’s asset projects is essential to the delivery of a range of services. Where projects are not completed on time, expected improvements in performance will not be achieved and there are often significant implications, including cost.

\textbf{7.1.2 Administered items}

In 2002-03, the Department was responsible for the administration of $1.6 billion of revenue (see Exhibit 7.3). The Department advised the Committee that Commonwealth grant funding will vary from Budget based on progress made during the year plus any other adjustments made by the Commonwealth.\footnote{Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.7} The Committee noted that the Commonwealth had budgeted a contribution of $68.4 million in 2002-03 for the Scoresby Freeway project\footnote{Hon. J. Anderson, MP, Minister for Transport and Regional Services, media release, Federal Government Keeps Victoria Moving, 14 May 2002} — funding that was not made available following the Government’s decision to deliver the Mitcham–Frankston Freeway with direct tolls.\footnote{Hon. J. Anderson, MP, Minister for Transport and Regional Services, media release, $420 million in the budget for Scoresby, 13 May 2003}

The Department advised the Committee that revenue of $66 million for development rights at the Spencer Street Station redevelopment largely

\begin{itemize}
  \item works to restore passenger rail services to Ararat and Bairnsdale — repairs to Ararat junction and additional trackwork including further sleeper replacement on Bairnsdale line (mid 2003 to first quarter 2004);
  \item Melton Highway stage 2 to Beatty’s Road Sydenham — large number of service relocations took longer than estimated (March 2002 to December 2002); and
  \item Box Hill tram line extension — delayed due to land acquisition and service relocation works (December 2002 to May 2003).
\end{itemize}
Report on the 2002-03 Budget Outcomes

explained the variation between budgeted and actual' other revenue. Proponents bidding to undertake the Spencer Street Redevelopment were required to bid a non-refundable cash upfront payment (or an alternative revenue or profit sharing arrangement) to the State for property rights acquired.

Exhibit 7.3

<table>
<thead>
<tr>
<th>Department of Infrastructure Administered Items Statement 2002—03</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>Administered revenue</td>
</tr>
<tr>
<td>Appropriations – Payments made on behalf of the State</td>
</tr>
<tr>
<td>Sale of goods and services</td>
</tr>
<tr>
<td>Commonwealth grants</td>
</tr>
<tr>
<td>Other grants</td>
</tr>
<tr>
<td>Taxes</td>
</tr>
<tr>
<td>Fines</td>
</tr>
<tr>
<td>Fees</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Administered expenses</td>
</tr>
<tr>
<td>Expenses on behalf of the State</td>
</tr>
<tr>
<td>Grants and other payments</td>
</tr>
<tr>
<td>Other expenses from ordinary activities</td>
</tr>
<tr>
<td>Payment into the Consolidated Fund</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Revenue less expenses</td>
</tr>
</tbody>
</table>

Administered assets

| | Adjusted Budget $ million | Actual $ million | Variation $ million |
| Cash assets | 7.8 | 7.2 | -0.6 |
| Receivables | 168.6 | 188.8 | 20.2 |
| Property, plant and equipment | -0.1 | 0.0 | 0.1 |
| Total | 176.3 | 196.0 | 19.7 |

Administered liabilities

| | Payables | Other | Total |
| | Adjusted Budget $ million | Actual $ million | Variation $ million |
| Payables | 18.5 | 15.2 | -3.3 |
| Other | 87.2 | 92.2 | 5.0 |
| Total | 105.7 | 107.4 | 1.7 |

Notes:
(a) Adjusted for machinery of Government changes for the period 1 January 2003 to 30 June 2003
(b) A negative variance indicates the actual result for the particular line item was below Adjusted Budget

Source: Department of Infrastructure, 2002-03 Annual Report, p.139

498 Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.8
499 Department of Infrastructure, Spencer Street Station Redevelopment: Request for Proposal, October 2001, p.8
7.1.3 Trust funds

The Committee noted that there was limited information about the Department’s trust funds in its 2002-03 annual report.

The Department informed the Committee that it controlled or administered four trust funds. At 30 June 2003, the closing balance of these trust funds was around $423 million, with the majority of moneys held in the Public Transport Fund ($265 million) and the Better Roads Victoria Trust ($150 million).\(^{500}\) Remaining funds of $7.5 million held in the Treasury Trust Fund related to several projects including multimedia activities (approximately $604,000), the youth employment scheme (approximately $409,000), and funds for the COAG energy market review (approximately $157,000).\(^{501}\)

The Committee noted that the Better Roads Victoria Trust contains funds relating to the 3 cents per litre fuel levy (collected by the Federal Government on behalf of the State), and more recently specific increases in road-related charges such as the $17 increase in motor registration fees.\(^{502}\) The Department informed the Committee that funds are used for road purposes in urban and rural areas.\(^{503}\)

The Department advised the Committee that the Public Transport Fund receives and pays out items relating to agreements, leases or licenses relating to passenger services or other transport services. Any activity in relation to public transport may utilise the trust including funds appropriated by Parliament.\(^{504}\) The Committee notes that there are enhanced reporting arrangements in place for some trust funds, including the Recreational Fishing Licences Trust Account (requiring an audited report to Parliament on the disbursement of revenue in October each year) and the Estate Agents’ Guarantee Fund (disclosure in Consumer Affairs Victoria’s annual report on grants paid from the fund).\(^{505}\)

In his report on Parliamentary control and management of appropriations, the Auditor-General recommended that the current

\(^{500}\) Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.23
\(^{501}\) Ibid, pp.22–23
\(^{502}\) Ibid, p.22
\(^{503}\) Ibid, p.23
\(^{504}\) Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.22
\(^{505}\) Fisheries Co-Management Council, 2002-03 Annual Report, p.17; Consumer Affairs Victoria, Annual Report 2002-03, p.105
annual reporting requirements at a departmental level be enhanced to incorporate additional disclosures for trust accounts. Such disclosures could include information about the establishment of new accounts and their purposes, and the closure of existing accounts, together with some greater detail about the transactions and balances of trust accounts.\textsuperscript{506}

The Committee agrees with the Auditor-General that current reporting arrangements for trust funds need to be made more transparent.

The Committee recommends that:

\textbf{Recommendation 48:} The Department of Infrastructure provide additional information in its annual report on the operations of the Public Transport Fund and the Better Roads Trust Account, including revenue sources and the projects/expenses to which funds are allocated.

In his November 2003 report on Public Sector Agencies, the Auditor-General noted that the Department had received $207 million from the Consolidated Fund ahead of service delivery, with the amount subsequently transferred into the Better Roads Victoria Trust ($151 million) and Public Transport Fund ($56 million).\textsuperscript{507} The effect of these transactions was to increase the value of the Consolidated Fund payments (and the Consolidated Fund cash deficit) during 2002-03, and to provide funding for future years towards roads and other transport expenditure without impacting on the Consolidated Fund reported result for those years.\textsuperscript{508}

The Committee notes that the Department expects to spend these appropriated funds in future years for purposes consistent with the trust accounts — for the construction and maintenance of roads and public transport purposes.\textsuperscript{509} The Committee is concerned that the practice of appropriating funds to trust funds in advance of expenditure being incurred can artificially distort the financial operations of the Consolidated Fund in the year that payments are made.

\textsuperscript{506} Victorian Auditor-General’s Office, \textit{Report on Parliamentary control and management of appropriations}, April 2003, p.77
\textsuperscript{507} Victorian Auditor-General’s Office, \textit{Report on Public Sector Agencies}, November 2003, p.100
\textsuperscript{508} Ibid
\textsuperscript{509} Ibid
The Auditor-General recommended that any amounts standing to the credit of trust accounts within the trust fund at the end of the financial year, which represent funds drawn down from the Consolidated Fund for services not delivered, should be repaid to the Consolidated Fund.\textsuperscript{510} In response, the Department stated that the Auditor-General’s recommendation would be discussed with the Department of Treasury and Finance.\textsuperscript{511}

The Committee intends to further examine such practices as part of its follow-up review of the Auditor-General’s Report on Parliamentary control and management of appropriations.

\textbf{7.2 Output group expenditure analysis}

In 2002-03, the Department of Infrastructure and VicRoads were responsible for the delivery of 30 outputs, budgeted to cost $2,632.7 million.\textsuperscript{512} Actual expenditure in 2002-03 was $2,667.1 million, around 1.3 per cent higher than budgeted.\textsuperscript{513}

The Committee noted that the cost of 23 of the Department’s 30 outputs was within 10 per cent of budgeted cost, with 3 outputs recording an actual cost 10 per cent or more below Budget.\textsuperscript{514} Actual cost was 10 per cent or more than budgeted for 4 outputs.\textsuperscript{515}

The Department advised the Committee of the reasons for the variances in output costs for selected outputs:\textsuperscript{516}

- ICT and community development — lower than budgeted expenditure of $4.4 million was due to the carry forward of $1.4 million in 2003-04 for public internet access in libraries and civic centres and savings in depreciation and capital asset charge due to changes in the timing of the capital program;

- Government and ICT policy — expenditure $4.2 million lower than budget due to the carry forward to 2003-04 of $1.5 million for the Telecommunications Purchasing and Management Strategy (TPAMS) project, under expenditure of $800,000 in

\textsuperscript{510} Ibid
\textsuperscript{511} Ibid, p.101
\textsuperscript{512} Department of Infrastructure, 2002-03 Annual Report, pp. 111–131
\textsuperscript{513} Ibid
\textsuperscript{514} Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.13–14
\textsuperscript{515} Ibid
\textsuperscript{516} Ibid, pp.13–14; Response, received 19 February 2004, to the Committee’s follow-up questions
Connecting Victoria programs and in depreciation and capital asset charges;

- passenger interchange development — higher than budgeted expenditure of $13 million was related to an $11 million payment to the Docklands Authority for the transfer of development rights to the Spencer Street Station Authority. Additional funding for Spencer Street Station contingencies was partly offset by lower than expected funding for the Airport Transit Link project following the deferral of a rail link to Melbourne airport;

- regional public transport passenger and freight development — lower than expected expenditure of $26.1 million was due to savings in depreciation and capital asset charge associated with slower than expected progress on major rail projects;

- regional road projects, accident blackspots and traffic and road use management improvements — variations for these three outputs reflected changes to the accounting treatment of road construction and road maintenance activities. This resulted in a shift between capital expenditure and outputs expenditure;

- metropolitan tram services — higher than expected expenses of $47.7 million included additional costs associated with the Interim Operating Agreement ($11 million), more capital works completed than forecast ($7 million), franchise review costs ($5 million) and additional costs following the National Express receivership ($26 million). These additional costs were partly offset by savings in passenger growth incentive payments of $5 million; and

- metropolitan public transport development — lower than expected depreciation and capital asset charges were due to a change in the timing of major rail projects. In addition, the level crossing program was transferred to a different output — public transport safety initiatives and regulation.
7.3 Performance information

The Committee noted that the Department largely achieved its performance targets for almost all performance indicators across the 30 outputs for which it has responsibility. Where performance targets were not substantially met, the Committee requested additional information from the Department (see Exhibit 7.4).

Exhibit 7.4

Department of Infrastructure and Portfolio Agencies
Output performance indicators with significant departures from targets

<table>
<thead>
<tr>
<th>Output/measure</th>
<th>Target 2002–03</th>
<th>Actual 2002–03</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ICT industry and community development</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment recruitment projects</td>
<td>100</td>
<td>114</td>
</tr>
<tr>
<td>Export development projects</td>
<td>30</td>
<td>41</td>
</tr>
<tr>
<td><strong>School bus services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>School bus safety program delivered — interchange upgrade (per cent completed)</td>
<td>80</td>
<td>90</td>
</tr>
<tr>
<td><strong>Regional road projects</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road improvements (including intersections and realignments) — projects commencing</td>
<td>26</td>
<td>19</td>
</tr>
<tr>
<td>Projects delivered in accordance with government-approved program</td>
<td>100</td>
<td>83</td>
</tr>
<tr>
<td><strong>Regional road network maintenance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bridges mass limited (per cent)</td>
<td>3</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>Metropolitan road network maintenance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bridges mass limited (per cent)</td>
<td>3</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Taxi, hire car and tow truck regulation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tow truck licence transactions</td>
<td>420</td>
<td>533</td>
</tr>
<tr>
<td>Taxis and tow trucks conform to quality standards (per cent)</td>
<td>&gt;94</td>
<td>83</td>
</tr>
<tr>
<td><strong>Traffic and road use management improvements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traffic management projects</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td><strong>Vehicle and driver regulation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average time to answer central calls (seconds)</td>
<td>&lt;30</td>
<td>38</td>
</tr>
<tr>
<td><strong>Road safety initiatives and regulation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Programmed works completed within agreed time frames (per cent)</td>
<td>100</td>
<td>79</td>
</tr>
<tr>
<td><strong>Public transport safety initiatives and regulation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety initiatives – unannounced audits</td>
<td>120</td>
<td>142</td>
</tr>
<tr>
<td>Non-conformances/compliances closed out within two months (per cent)</td>
<td>100</td>
<td>86</td>
</tr>
</tbody>
</table>

Source: Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.16—17

The Department advised the Committee of the reasons for significant variances including:517
• ICT industry and community development — the number of projects reported for investment recruitment projects and export development projects were significantly higher than expected. The target for export development projects has been increased from 30 to 35 (actual in 2002-03 was 41) and the investment recruitment projects measure has been amended for 2003-04 to be consistent with measures used by the Department of Innovation, Industry and Regional Development;

• school bus services — the school bus safety program delivered was ahead of schedule, with $9 million being spent compared to the targeted $8 million at the end of June 2004. The success of this program has resulted in expenditure being ahead of schedule with the remaining $1 million to be expended in 2003-04. At June 2004 it is anticipated that this program will be 100 per cent completed in line with forecasts contained in the 2003-04 Budget Papers;

• regional road projects — the target of 26 road improvements projects commencing was not met because six projects were not funded and subsequently were withdrawn. One project is yet to commence on Bayside Road (Geelong) due to planning permit delays. The performance measure for projects delivered in accordance with government approved programs was less than targeted due to several projects being behind schedule because of the effects of bush fires, planning permit delays and contractor unavailability. These delayed projects would be completed in 2003-04;

• taxi, hire car and tow truck regulation — higher than expected tow truck licence transactions were largely due to operators of trade towing businesses returning their licences as they exited the industry. Deregulation of this industry has resulted in too many operators with many now leaving the industry. The share of taxis and tow trucks conforming to quality standards was below target due to infringements being issued to operators who were slow in fitting security cameras into taxis. All metropolitan taxis are now fitted with security cameras. Infringements were also higher because minor quality standard infringements, which previously resulted in warnings being given, are now treated as quality breaches;
• vehicle and driver registration — the average time to answer calls was longer than targeted due to technological problems with the new driver licensing system and higher phone call volumes than expected due to motor boat licence requests;

• public transport safety initiatives and regulation — an additional 22 rail safety compliance inspections (unannounced audits) were undertaken. The increase in this audit programme was aimed at providing a more visible presence around operational rail activities to ensure high level safety standards are being maintained.

The Committee was advised that the Department uses internal, local, national or international benchmark data to assist with the development of performance measures and targets where appropriate comparative data is available.518

The Department provided the example of National Performance Indicators published by Austroads, which allow VicRoads and the Victorian road network to be benchmarked against other Australian and overseas road authorities and networks.519 These indicators include the International Roughness Index (IRI), which is based on community surveys for comfort of road use depending on the roughness of the surface. Several of the Department’s output performance measures for ongoing road network maintenance are based on standards using the IRI. Other road use related benchmark indicators include the efficiency of service provided for vehicle registrations and driver licences, the annual cost of adding new licensees and vehicle registrations to the State’s database, the degree of congestion on roads, and the proportion of people to vehicles on main arterial networks.520

The TravelSMART program aims to reduce dependency car transport and choose sustainable travel alternatives such as cycling, walking or catching public transport.521 The Department advised the Committee that performance of the TravelSMART program (which moved from pilot to demonstration project phase in 2002-03) is measured in a number of ways, including output performance measures and targets that were developed by benchmarking with similar programs in other States.522

518 Ibid, pp.15–16
519 Ibid, p.15
520 Ibid
522 Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.15
The Committee noted that the Department has maintained close consultation with travel behaviour change programs in Western Australia, South Australia, Queensland, the Australian Capital Territory and New South Wales, to assist in the development and implementation of TravelSMART initiatives in Victoria, as well as to provide comparable benchmarks for assessing the program’s ongoing performance. In early 2003, the Department commissioned detailed research into similar programs underway in several other States. In particular, the Western Australian Government commenced a comparable travel behaviour change program three years ahead of Victoria, providing excellent opportunities for benchmarking against outcomes of the Perth initiatives.523

The Committee acknowledges the range of internal and external benchmarking information that the Department currently uses to evaluate the effectiveness and efficiency of its projects. Where possible, interstate comparisons should be made and the results published in the Department’s annual report.

7.4 Major issues

The Committee identified a number of issues relating to the Department’s portfolio arising from the 2002-03 Budget.

7.4.1 Public transport franchise arrangements

In March 2002 the Government entered into an interim agreement with the three separate public transport franchise holders. The interim agreement included an up-front payment by the Government of $41.6 million together with annual payments of $2.8 million over the period of the arrangements to settle a number of claims and disputes.524

In December 2002 the Government entered into further interim operating arrangements for a 15 month period commencing October 2002. At the option of the Director of Public Transport the arrangements can be extended for an additional 12 month period to December 2004.525

The National Express Group (Australia) (NEGA) elected not to be part of these arrangements and following the withdrawal of financial support

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523 Ibid, pp.15–16
524 Victorian Auditor-General’s Office, Report of the Auditor-General on the Finances of the State of Victoria, 2002-03, November, p.69
525 Ibid, p.70
from its parent company subsequently become insolvent. To ensure that public transport services continued without disruption, the Director of Public Transport entered into a transition agreement with NEGA that resulted in the transfer of selected assets and employees in January 2003 to the State owned company Victorian Rail Services Pty Ltd.\footnote{Ibid, pp.70–71}

The Auditor-General noted that the transition agreement proposed the terms of a Deed of Company Arrangement (DOCA) to resolve claims from unsecured creditors of the franchisees, estimated at $70 million. Key provisions of the DOCA, accepted by the unsecured creditors of NEGA in July 2003 include:\footnote{Ibid, p.72}

- the establishment of a fund that will be shared between the franchisees’ unsecured creditors on a pro-rata basis. The State paid $20 million into this fund. In addition, the Government met the debts of two unsecured creditors to the value of $600,000;
- the assumption by the State of the employee entitlements liability of the franchisees, if a termination event occurs, estimated at $82.4 million as at 22 December 2002;
- the release, as from 22 December 2002, of the State and the franchisees from all claims they have or might have against each other. Prior to the signing of the DOCA, the State’s claim against the companies was around $906 million, after deducting the value of performance bonds, for the period ending June 2008.

The transition agreement allowed the State to obtain $135 million (in lieu of performance bonds) from NEGA, recorded as part of ‘other revenue’ in the Government’s 2002-03 Annual Financial Report (see Chapter 2 of this report).\footnote{Ibid}

The Committee noted that the value of unsecured creditor’s claims over National Express were around $72 million, potentially representing a return to creditors of up to 41.7 cents per dollar.\footnote{L. Wood, ‘Creditors crying blue murder on the National Express’, The Age, 5 July 2003} It is not clear why two unsecured creditors were paid in full for debts of $600,000. While the Committee acknowledges the Government’s success in maintaining the
provision of public transport services following the withdrawal of National Express, it is concerned that, by making a targeted payment, all unsecured creditors have not been treated equally.

The Auditor-General identified significant transactions estimated at $196 million that the Government had incurred in order to continue the operation of metropolitan public transport services since the March 2002 interim operating agreement. The major expenses (partly offset by the $135 million received from NEGA) included.530

- additional funding arising from the December 2002 interim operating agreement ($48 million) — estimated cost excludes $49 million commitment if additional funding period is elected;
- franchise taskforce costs ($16.6 million);
- contribution towards NEGA unsecured creditors outlined in the DOCA one-off costs ($20.6 million);
- estimated shortfall between revenue and expenditure of the franchisee businesses in receivership ($45.6 million) — for the period 22 December 2002 to 30 June 2003 and excludes ongoing commitments; and
- losses on the acquisition of NEGA new rolling stock financing vehicle companies ($66.9 million).

In July 2003, the Minister for Transport advised the Committee that the Government had commenced discussions with Yarra Trams and Connex to renegotiate the franchise contracts to achieve the Government’s objectives of one metropolitan train company and one metropolitan tram company.531

The Minister indicated that a negotiated outcome offered the best chance of ensuring continued improved standards of service delivery and stability for customers and employees, and of removing what the Government considers to be flaws in the franchise contracts signed by the previous Government.532

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530 Victorian Auditor-General’s Office, Report of the Auditor-General on the Finances of the State of Victoria, 2002-03, November 2003, p.75
531 Minister for Transport’s response, received 23 July 2003, to the Committee’s follow-up questions on the 2003-04 Budget estimates questionnaire
532 Ibid
The Committee noted that at the time of preparing this report, the Government had agreed to enter into new five year agreements with Connex and Yarra Trams, with Connex receiving an additional $165 million per year to take control of the train network and Yarra Trams receiving an additional $36 million to run the tram network. Under the agreements, Connex will not be required to fulfil its obligation under the former arrangements to redevelop Flinders Street Station. The new contracts will also retain the previous performance bonus/penalty incentives, but additionally offer the companies protection against any dramatic slump in patronage.\textsuperscript{533}

Although Victorian Rail Track (VicTrack) owns most of Victoria’s rail and tram fixed infrastructure, the vast majority is leased to the Director for Public Transport, who in turn sub-leases the infrastructure to various transport operators and track access providers.\textsuperscript{534} The metropolitan lease to the Director for Public Transport commenced in August 1999 and is for a term of twenty years. Under the leases, day-to-day responsibility for conducting transport operations and maintaining the infrastructure is effectively contracted to the lessees/sub-lessees.\textsuperscript{535}

Under the arrangements entered into in mid-1999, the then five passenger transport businesses were awarded to three separate franchisees for periods of up to 15 years. Responsibility for the day-to-day management and operation of the network — including rail infrastructure maintenance — was transferred to the franchisees.\textsuperscript{536} Prior to the awarding of the franchises, the Department conducted an audit of the state of rail infrastructure, with the intention of conducting a similar audit in three years in order to establish whether the franchisees had met their obligations for maintenance.

Subsequently, during 2002-03 the Government waived its right to commission the second survey to assess the condition of the rail infrastructure, thereby releasing the franchisees from potential infrastructure maintenance obligations.\textsuperscript{537}

The Committee is concerned that there remains uncertainty over the effectiveness of the maintenance strategies adopted by the previous

\textsuperscript{533} Ibid
\textsuperscript{534} VicTrack, 2002-03 Annual Report, p.11
\textsuperscript{535} Ibid
\textsuperscript{536} Victorian Auditor-General’s Office, Report of the Auditor-General on the Finances of the State of Victoria 2002-03, November 2003, p.69
\textsuperscript{537} Ibid, p.70
franchisees. The Committee is aware that the Department is currently carrying out an internal assessment of the quality of metropolitan rail infrastructure. The Committee believes that it is important that the Department’s audit of the condition of rail infrastructure be made public and that any additional cost to the State and other parties be quantified.

The Committee recommends that:

**Recommendation 49:** The Department of Infrastructure:

(a) as a matter of urgency, complete the audit of the condition of Victoria’s rail infrastructure in order to quantify the State’s potential financial liability for necessary safety works and publicly release the details of the costs involved in any rectification work;

(b) seek clarification, as a matter of urgency, on the State’s potential liability for any incidents arising where failures of rail infrastructure maintenance, which was previously the responsibility of a franchisee, was a contributing factor; and

(c) once the results of the audit are known, a strategy plan be developed as soon as possible to address priority areas and projects.

The Committee is aware that the Auditor-General is considering examining in detail the impact of recent developments relating to transport franchising arrangements during 2004.538 The Committee will continue to monitor developments relating to the new public transport arrangements when further details of contractual arrangements are available.

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7.4.2 Implementation of new and enhanced bus services

The 2002–03 Budget allocated $8.2 million in 2002–03 ($35.9 million until 2006) for 25 new and enhanced bus services in outer metropolitan Melbourne to meet community needs and recognise demographic changes.539 These enhancements were part of a package of $282.6 million in funding by the Department for metropolitan bus services in 2002-03.540

The Department advised the Committee that initiatives for 24 services had been implemented in 2002-03 at a cost of $8.205 million.541 As at 31 December 2003, the outstanding service initiative was being negotiated with the operator and was expected to be introduced in early 2004.542

The Committee noted that the nature of services enhancements included:543

- new routes weekdays and Saturdays, extended evening and new Sunday service (Berwick Corridor — $560,000);
- route extension and improvements to on-time running (Hillside — $560,000);
- increased frequency and span of hours, introduction of bus priority traffic signalling and passenger display information technology (Blackburn/Syndal/Middle Brighton; and Nunawading/Springvale/Chelsea — $2.2 million); and
- amalgamation of routes with improved frequencies and span of hours (Cranbourne/Frankston; South Morang/Apollo Parkways/Greensborough — $780,000).

The Committee notes that the Government has set a target of travel in Melbourne taken on public transport of 20 per cent by 2020, up from around 9 per cent in 2000.544 The effect of these new and upgraded bus services on travel behaviour will need to be viewed in the context of the other significant activities undertaken by the Government to improve the metropolitan public transport network — including the contribution of

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539 Budget Paper No. 2, 2002–03 Budget Statement, p.186
540 Department of Infrastructure, 2002-03 Annual Report, p.122
541 Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.33–35
542 Ibid
543 Ibid
Melbourne 2030 policies (such as better managing metropolitan growth) and other programs that improve public transport services (such as road improvements and changes to traffic management guidelines managed by VicRoads).

The benefits of upgraded bus services on Springvale Road and Blackburn Road (SmartBus project) were recently evaluated by the Department of Infrastructure. The SmartBus project gave buses priority at 34 signalised intersections along the route to improve service reliability, and electronic signs at stops displaying bus arrival times. VicRoads reported that the evaluation identified increased patronage of nearly 20 per cent on weekdays and more than 75 per cent on weekends.545 The Committee noted that SmartBus passengers would soon be surveyed to determine their previous means of travel and what attracted them to the SmartBus service.546

The Committee welcomes the introduction of the additional and improved bus services to metropolitan growth areas. Although the cost of these enhancements is small compared to Government’s overall contribution to metropolitan bus services, the Committee believes that such enhancements have the potential to attract additional patronage to bus services and other public transport modes.

The Committee is aware that the survey used to assess the Government’s mode share target of 20 per cent of trips on public transport by 2020 is no longer being carried out by RMIT’s Transport Research Centre. The Committee believes that it is important to regularly assess performance in meeting this broader performance outcome.

The Committee recommends that:

**Recommendation 50:** The Department of Infrastructure undertake an independent survey to annually assess the progress made towards meeting the target of 20 per cent of travel in Melbourne by 2020 is taken on public transport.

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545 VicRoads, 2002-03 Annual Report, p.22
7.4.3 Operation of the Multi-Purpose Taxi Program

The Multi-Purpose Taxi Program provides concessions on the metered taxi fares for people with disabilities. Membership is based on prescribed disability conditions, which must be certified by an applicant’s doctor before being accepted into the program. The subsidy is 50 per cent of each fare, capped at a maximum of $25 per trip.\(^{547}\)

In 2002-03, the cost of the program was $42.4 million, which included an extra allocation of $7.2 million in the 2002-03 Budget to provide additional capacity to enhance the delivery of the program.\(^{548}\) The Committee noted that an additional $2 million was received as a Treasurer’s Advance and applied by the Department to the program in 2002-03.\(^{549}\)

The Department expected that there would be 26,500 applications for the program in 2002-03, up from an expected 26,000 in 2001-02.\(^{550}\) In the last four years the Department has assessed more than 112,000 applications to join the program.\(^{551}\)

The Department advised the Committee that as at 30 June 2003, total membership of the program was 183,500 and that the total number of trips made under the program during the year was 5.5 million.\(^{552}\)

In October 2003, the Minister for Transport announced changes to the program.\(^{553}\) The changes include tightening eligibility criteria with a focus on the functional impact of an individual’s disability or impairment, means testing for new applicants (except holders of a veteran’s pensions and people requiring permanent use of a wheelchair) and the introduction of an annual $550 trip cap from July 2004 (applying to all users other than those requiring the permanent use of a wheelchair).\(^{554}\)

\(^{547}\) Department of Infrastructure, 2002-03 Annual Report, p.23
\(^{548}\) Ibid, p.81; Budget Paper No. 2, 2002-03 Budget Statement, pp.186–87
\(^{549}\) Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.26
\(^{551}\) Department of Infrastructure, Annual Reports, 1999-00 (p.106), 2000-01 (p.155), 2001-02 (p.148), 2002-03 (p.128)
\(^{552}\) Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.38
\(^{553}\) Hon. P. Batchelor, MP, Minister for Transport, media release, Multipurpose Taxi Program improved for those in need, 17 October 2003
\(^{554}\) Ibid
Under the reforms a panel will be established to assess special circumstances of a member who may require additional funding above the $550 annual cap, such as people who need to access education, employment and day training.\(^{555}\)

Certain categories of disability were exempted by further changes announced in February 2004, including blindness/vision impaired, intellectual impairment, brain damage, dementia, organ disorders and paralysis.\(^{556}\) Other changes included the indexation of the $550 annual cap and additional subsidies beyond the capped amount available to those with a demonstrated need.\(^{557}\) The changes announced in February 2004 were reported to cost the program at least $20 million over the next four years.\(^{558}\)

The Committee appreciates that the Department faces an increasing demand for accessible transport services in the future as the number of people with a disability rises. However, increasing membership and taxi travel by members should also be viewed as a success in improving the social participation of disadvantaged members of the community.

The Committee noted allegations of fraudulent claims of up to $10 million per year by taxi drivers.\(^{559}\) The Department was not able to provide the Committee with an estimate of potentially fraudulent claims relating to 2002-03, stating that there was ‘no precise way to determine fraud in the Multipurpose Taxi Program’.\(^{560}\)

The Department advised the Committee that a ‘smart’ card system for members was introduced in late 2000 as the first stage of a technology based anti-fraud measure. The second stage — which electronically interfaces taxi meters with the EFTPOS terminals — has taken two years to perfect and was mandated for installation in all taxis by the end of February 2004. The Department’s internal auditors maintain a regular program of audits of the Multi-Purpose Taxi Program focusing particularly on the validity of trip data.\(^{561}\)

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\(^{556}\) Hon. S. Bracks, MP, Premier, media release, Taxi Program made easier for those in need, 18 February 2004.

\(^{557}\) Ibid.

\(^{558}\) ‘Bracks backflip on taxi cuts softens blow to the disabled’, *The Age*, 19 February 2004, p.3.


\(^{560}\) Department of Infrastructure response, received 19 February 2004, to the Committee’s follow-up questions.

\(^{561}\) Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.38–39.
The Committee noted that the Department had used statistical data following the introduction of the smart card technology to assist in identifying suspected fraud. In 2003, investigations had resulted in the licences of 19 drivers being suspended or revoked, one conviction and prosecutions of a further four drivers are proceeding.\textsuperscript{562}

The Department advised the Committee that as at 24 December 2003, investigations of five drivers were ongoing pending notice of revocation of their driver certificates. Victoria Police was also investigating a number of serious cases.\textsuperscript{563}

The Committee welcomes efforts by the Department to identify and prosecute fraudulent claims under the Multi-Purpose Taxi Program. However, it is concerned that restricting access and benefits under the program will reduce opportunities for people with permanent disabilities to fully participate in community life.

The Committee notes that the Department of Human Services intends to collect information from 2003 relating to social participation of people with a disability\textsuperscript{564} including the use of transport services.\textsuperscript{565} The Committee considers that the Department should use this information and information from other sources to re-assess before July 2005 the impact on people with a disability of changes to the program.

The Committee recommends that:

\begin{quote}
\textbf{Recommendation 51:} The Department of Infrastructure ensure there is an effective framework in place to monitor and evaluate the effects of the financial changes to the Multi-Purpose Taxi Program in conjunction with the ongoing accessibility of the program to eligible participants.
\end{quote}

\textsuperscript{562} Department of Infrastructure response, received 19 February 2004, to the Committee’s follow-up questions

\textsuperscript{563} Department of Infrastructure response, received 24 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.38–39


\textsuperscript{565} Department of Human Services, 2002, \textit{Victorian Services for People with Disabilities 2001}, Victorian Government, Melbourne, p.87
Chapter 8: Department of Innovation, Industry and Regional Development

Key Findings of the Committee:

8.1 The total Budget for the Department of Innovation, Industry and Regional Development, adjusted for the machinery of government changes, was $407 million in 2002-03. Actual expenditure was $308.2 million, $98.8 million or 24.2 per cent below Budget.

8.2 The Department reported an operating surplus of $97.3 million during 2002-03, with revenue of $405.5 million exceeding expenditure of $308.2 million. The Department did not budget for an operating surplus in 2002-03, which was attributed mainly to lower grant payments for Regional Infrastructure Development projects.

8.3 The Department reported total assets of $162.2 million, an increase of 40.3 per cent against Budget. Funds held in the Regional Infrastructure Development Fund comprised $124.8 million of the total assets reported by the Department.

8.4 Under the Financial Management Act 1994, Departments are required to disclose in their annual reports, the actual and Budget financial statement outcomes of their portfolio entities. The Committee noted that the Department of Innovation, Industry and Regional Development did not comply with this requirement in 2002-03.

8.5 At 30 June 2003, $102.2 million of the Department’s available parliamentary authority remained unspent, of which $65.2 million or 63 per cent was approved by the Department of Treasury and Finance to be carried forward into the following year. The Department of Innovation, Industry and Regional Development did not satisfactorily explain why the total amount of its unspent parliamentary authority was not approved to be carried forward to 2003-04.
Key Findings of the Committee (continued):

8.6 At 30 June 2003, $128.5 million was held in 23 trust funds of the Department of Innovation, Industry and Regional Development, with the Regional Infrastructure Development Fund accounting for 97 per cent of this balance. Trust Fund information, including opening balances, revenue, expenditure and closing balances for each trust fund account was disclosed in the annual report of the Department.

8.7 Total receipts and expenditure out of the Regional Infrastructure Development Fund (RIDF) for the three year period commencing 2000-01 to 2002-03 amounted to $178 million and $53 million respectively, i.e. 29.7 per cent of total RIDF funds have been spent since 2000-01.

8.8 Employee expenses of $56.2 million included bonus payments to executive officers of $425,501. The Department paid WorkCover premiums of $188,942. No bonus payments were made to non-executive staff.

8.9 There was very limited information on the progress and status of major investment initiatives in the 2002-03 annual report of the Department.

8.10 The majority of published performance targets were achieved by the Department during 2002-03 with higher than expected performance outcomes recorded in a number of areas including the facilitation and announcement of new investments of $2.4 billion against a target value of $1.2 billion, investments attracted in Rural Victoria of $880 million against a target value of $300 million and exports facilitated of $864 million against a target measure of $600 million.

8.11 There is scope for improving the quality of performance measures published in the annual report of the Department to more clearly demonstrate the extent to which program objectives or outcomes have been or are being achieved.
8.12 Overall, expenditure on new initiatives funded during 2002-03 was significantly lower than Budget. Actual expenditure totalled $40.87 million against a Budget of $66.7 million.

The Department of Innovation, Industry and Regional Development is responsible for building innovation and driving economic and regional development within the State. Its key objectives are aimed at promoting innovative, internationally integrated and competitive industries and businesses for Victoria, creating a competitive businesses environment and capabilities, strengthening regional economies, supporting the development of fair work practices and promoting the growth of the tourism sector.

The Department supports seven Ministerial portfolios – Innovation; State and Regional Development; Small Business; Tourism; Industrial Relations; Financial Services Industry; and Manufacturing and Export.

During 2002-03, the structure of the Department was significantly affected by machinery of government changes that resulted in the transfer of a number of functions to and from the Department. These changes are outlined in Exhibit 8.1.

566 Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, p.5
**Exhibit 8.1**

**Department of Innovation, Industry and Regional Development**

**Outputs Impacted by Machinery of Government Changes**

<table>
<thead>
<tr>
<th>Outputs transferred out of the Department</th>
<th>Transferee Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT Industry Development and E-Commerce</td>
<td>Department of Infrastructure</td>
</tr>
<tr>
<td>eGovernment and ICT Policy</td>
<td></td>
</tr>
<tr>
<td>ICT Community Development</td>
<td></td>
</tr>
<tr>
<td>eGovernment Infrastructure</td>
<td></td>
</tr>
<tr>
<td>Trade Measurement Development and Services</td>
<td>Department of Justice</td>
</tr>
<tr>
<td>Effective Management of the Sale of Liquor</td>
<td></td>
</tr>
<tr>
<td>Policy and Labour Market Advice</td>
<td>Department for Victorian Communities</td>
</tr>
<tr>
<td>Community Employment Programs</td>
<td></td>
</tr>
<tr>
<td>Business Employment Programs</td>
<td></td>
</tr>
<tr>
<td>Migrant Employment Services</td>
<td></td>
</tr>
<tr>
<td>Tourism Marketing and Events Facilitation</td>
<td>Former Department of Tourism, Sport and the Commonwealth Games</td>
</tr>
<tr>
<td>Tourism Industry and Infrastructure Development Biomedical Research, Ethics and Safety (partial)</td>
<td>Department of Human Services</td>
</tr>
</tbody>
</table>


### 8.1 Financial statements analysis

The total Budget for the Department of Innovation, Industry and Regional Development, adjusted for the machinery of government changes, was $407 million in 2002-03. Actual expenditure was $308.2 million, $98.8 million or 24.2 per cent below Budget.567

The Department reported an operating surplus of $97.3 million during 2002-03 with revenue of $405.5 million exceeding expenditure of $308.2 million.568 The Department did not budget for an operating surplus in 2002-03, which was mainly attributed to lower grant payments for Regional Infrastructure Development projects. The Department advised that $123.5 million in funding for Regional Infrastructure Development Projects was received for which there was no expenditure during 2002-03.569 These projects are expected to be undertaken over 2003-04 and 2004-05. Further details in relation to the Regional Infrastructure Development Fund (RIDF) are provided in Section 8.1.2.

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568 Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, p.44
569 Ibid, p.62
Total revenue and expenditure of the Department for 2002-03 is detailed within the Statement of Financial Performance at Exhibit 8.2.

**Exhibit 8.2**

**Department of Innovation, Industry and Regional Development**

**Statement of Financial Performance for the year ended 30 June 2003**

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Controlled Operations</strong></td>
<td>2002-03 Budget($ million)</td>
<td>2002-03 Actual ($ million)</td>
<td>Variation($ million)</td>
</tr>
<tr>
<td>Revenue from ordinary activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output Appropriations</td>
<td>407.0</td>
<td>405.5</td>
<td>-1.5</td>
</tr>
<tr>
<td>Total</td>
<td>407.0</td>
<td>405.5</td>
<td>-1.5</td>
</tr>
<tr>
<td>Expenditure from ordinary activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>57.1</td>
<td>56.2</td>
<td>-0.9</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>4.5</td>
<td>3.6</td>
<td>-0.9</td>
</tr>
<tr>
<td>Grants and other payments</td>
<td>259.9</td>
<td>201.1</td>
<td>-58.8</td>
</tr>
<tr>
<td>Capital assets charge</td>
<td>2.8</td>
<td>1.2</td>
<td>-1.6</td>
</tr>
<tr>
<td>Supplies and services</td>
<td>82.9</td>
<td>45.9</td>
<td>-37.0</td>
</tr>
<tr>
<td>Other</td>
<td>-0.1</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Total</td>
<td>407.0</td>
<td>308.2</td>
<td>-98.8</td>
</tr>
<tr>
<td>Net result for reporting period (c)</td>
<td>0</td>
<td>97.3</td>
<td>-97.3</td>
</tr>
</tbody>
</table>

**Administered Operations**

<table>
<thead>
<tr>
<th></th>
<th>2002-03 Actual ($ million)</th>
<th>2002-03 Actual ($ million)</th>
<th>Variation($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administered revenue</td>
<td>9.9</td>
<td>2.1</td>
<td>-7.8</td>
</tr>
<tr>
<td>Administered expenses</td>
<td>9.9</td>
<td>2.1</td>
<td>-7.8</td>
</tr>
</tbody>
</table>

Notes:
(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003
(b) A negative variance indicates there is a Budget surplus for the particular line item
(c) The actual net result for 2002—03 was a surplus

Sources: Budget Paper No. 3, 2003-04 Budget Estimates, pp.196 and 199; Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, pp. 44 and 72

The following explanations for material variances in actual outcomes against Budget in the Statement of Financial Performance were provided by the Department:570

- depreciation, amortisation and capital asset charge expenditure was lower than budgeted due to delays in the timing of expenditure on asset investment initiatives;

570 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.4
• grant payments were lower than Budget due to the timing of receipt and assessment of grant agreements and the achievement of milestones by grant recipients; and

• supplies and services were lower than Budget due to delays in the provision of services associated with tourism recovery, business development, Agenda for New Manufacturing and Science, Technology and Innovation (STI) initiative.\footnote{Department of Innovation, Industry and Regional Development response, received 17 February 2004, to the Committee’s follow-up questions}

Administered revenue and expenditure was lower than Budget as surplus land sales of $7.1 million (included in the Budget) were not reported in the actual outcomes of the Department, following the transfer of Major Projects Victoria (previously within the Department’s portfolio) to the Department of Infrastructure in July 2002.\footnote{Ibid, p.6}

At 30 June 2003, the Department reported total assets of $162.2 million, an increase of 40.3 per cent against Budget. Additional funds in the Regional Infrastructure Development Fund of $124.8 million (as a result of timing delays in expenditure of funds received), were mainly responsible for this variance. Liabilities for the same period were 59.6 per cent below Budget following delays in the implementation of capital projects. This resulted in the accounts payable balance for capital works being lower than originally anticipated.

Exhibit 8.3 sets out the composition of assets and liabilities of the Department at 30 June 2003.
Exhibit 8.3

Department of Innovation, Industry and Regional Development
Statement of Financial Position at 30 June 2003

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002-03</td>
<td>2002-03</td>
<td>Variation(b)</td>
</tr>
<tr>
<td></td>
<td>Budget(a)</td>
<td>Actual ($ million)</td>
<td>($ million)</td>
</tr>
<tr>
<td>Controlled Operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Assets</td>
<td>2.4</td>
<td>126.2</td>
<td>123.8</td>
</tr>
<tr>
<td>Receivables</td>
<td>6.2</td>
<td>17.1</td>
<td>10.9</td>
</tr>
<tr>
<td>Prepayments</td>
<td>1.1</td>
<td>2.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>9.7</td>
<td>145.6</td>
<td>135.9</td>
</tr>
<tr>
<td>Non-Current Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>67.0</td>
<td>0.0</td>
<td>-67.0</td>
</tr>
<tr>
<td>Other Financial Assets</td>
<td>0.1</td>
<td>0.0</td>
<td>-0.1</td>
</tr>
<tr>
<td>Property, Plant and Equipment</td>
<td>38.8</td>
<td>16.6</td>
<td>-22.2</td>
</tr>
<tr>
<td>Total Non-Current Assets</td>
<td>105.9</td>
<td>16.6</td>
<td>-89.3</td>
</tr>
<tr>
<td>Total Assets</td>
<td>115.6</td>
<td>162.2</td>
<td>46.6</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>37.8</td>
<td>7.8</td>
<td>-30.0</td>
</tr>
<tr>
<td>Provisions</td>
<td>5.8</td>
<td>5.0</td>
<td>-0.8</td>
</tr>
<tr>
<td>Other</td>
<td>1.0</td>
<td>0.0</td>
<td>-1.0</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>44.6</td>
<td>12.8</td>
<td>-31.8</td>
</tr>
<tr>
<td>Non-Current Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>10.3</td>
<td>9.4</td>
<td>-0.9</td>
</tr>
<tr>
<td>Total Non-Current Liabilities</td>
<td>10.3</td>
<td>9.4</td>
<td>-0.9</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>54.9</td>
<td>22.2</td>
<td>-32.7</td>
</tr>
<tr>
<td>Net Assets (c)</td>
<td>60.7</td>
<td>140.0</td>
<td>79.3</td>
</tr>
<tr>
<td>Administered Operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administered Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables (d)</td>
<td>15.8</td>
<td>30.2</td>
<td>14.6</td>
</tr>
</tbody>
</table>

Notes:
(a) Adjusted for the machinery of government changes for the period 1 January 2003 to 30 June 2003
(b) A negative variance indicates the actual result for the particular line item was below Budget

Sources: Budget Paper No. 3, 2003-04 Budget Estimates, pp. 197 and 199; Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, pp.45 and 73

The Department provided the following additional explanations for material variances in actual to budget figures in the Statement of Financial Position:

- receivables budgeted for 2002-03 included a loan amount of $10.1 million provided to the developer of the TV and Film Studio at the Docklands. This amount was subsequently reclassified as an administered asset, based on advice provided by the Auditor-General. The variance in administered items

573 Ibid, p.5
reflects this reclassification. More details on the TV and Film Studio are contained at Section 8.1.4;

- prepayments are difficult to estimate and represented grants paid to Tourism Victoria which were higher than originally projected; and

- non-current receivables budgeted for 2002-03 included Regional Infrastructure Development trust funds. These amounts were subsequently reclassified as cash assets.

Under the *Financial Management Act 1994*, Departments are required to disclose in their annual reports, the actual and budget financial statement outcomes of their portfolio agencies. The Committee noted that the Department did not comply with this requirement during 2002-03.

The Committee recommends that:

**Recommendation 52:** To enhance the accountability and transparency of financial disclosures and to ensure compliance with the requirements of the *Financial Management Act 1994*, the Department of Innovation, Industry and Regional Development disclose in its annual report variations between Budget and actual outcomes together with explanations for major variations.

### 8.1.1 Unspent funds

At 30 June 2003, $102.2 million of the Department’s available parliamentary authority remained unspent. The Department identified that this resulted from agreed changes in cash flows for committed projects to be delivered in 2003-04. However, the Committee noted that only $65.2 million or 63 per cent of the total amount of unspent funds of $102.2 million was approved by the Department of Treasury and Finance to be carried forward into the following year. Departments are...

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574 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.4

575 Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, p.60

576 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.21
generally able to carry forward their unspent parliamentary authority, where they identify to the Department of Treasury and Finance, the reasons for underspending of their parliamentary authority, and the output and investment initiatives to which the unspent appropriations relate.

The Department did not satisfactorily explain to the Committee why the total amount of its unspent parliamentary appropriation was not approved to be carried forward to 2003-04. The Department informed the Committee that the unspent parliamentary authority of $102.2 million was made up of advances from the Treasurer not utilised in 2002-03; Budget funding remaining at the end of a program’s life-cycle which could not be carried forward; budget appropriated to the Department for asset initiatives; and approved carry forwards.\textsuperscript{577} Given the significant level of unspent funds that were not approved to be carried forward to 2003-04, the Committee is concerned the amount of funding allocated to the Department was considerably higher than the Department’s actual funding requirements for 2002-03.

The continuing underspending of available appropriation authority by the Department was highlighted in the Victorian Auditor-General’s Report on Public Sector Agencies in November 2003. The Auditor-General indicated that over the past three years, the value of appropriations applied by the Department had on average been around 24 per cent below the available parliamentary authority, equivalent to $107.8 million over this period. The Auditor-General highlighted that the levels of underspending raised questions about the quality of internal budgeting and financial management processes. The Department’s response to the findings contained in the report centred on the need for a greater degree of flexibility in the application and outflow of funding to address emerging business demands and trends.\textsuperscript{578}

In view of the continuing trend in underspending by the Department and the approval to carry over only 63 per cent of its total unspent funds into 2003-04, the Committee supports the recommendations contained in the Auditor-General’s report that the Department further assess the underlying reasons for the continuing levels of underspending, and any implications for the preparation and management of future departmental budgets.\textsuperscript{579}

\textsuperscript{577} Department of Innovation, Industry and Regional Development response, received 17 February 2004, to the Committee’s follow-up questions
\textsuperscript{579} Ibid
The Committee recommends that:

**Recommendation 53:** The Department of Innovation, Industry and Regional Development urgently review the adequacy of its budgeting framework and project planning to remedy the continuing trend in underspending of its available appropriation authority.

### 8.1.2 Trust fund balances

At 30 June 2003, $128.5 million was held in 23 Trust Funds of the Department with the Regional Infrastructure Development Fund accounting for 97 per cent of this balance. Trust fund information, including opening balances, revenue, expenditure and closing balances for each trust fund account was disclosed in the annual report of the Department.

**(a) Regional Infrastructure Development Fund**

The Regional Infrastructure Development Fund (RIDF) was established under the *Regional Infrastructure Development Fund Act 1999* to provide financial assistance to Regional Victoria for capital works including improvement of transport, the development of industries; improvement of tourism facilities and provision of access to education and information technology. Funding of $180 million was provided for RIDF projects in the 2000-01 Budget over a three year period to 2002-03.

At 30 June 2003, the total value of RIDF projects announced by the Department amounted to $129.7 million. Further projects valued at $41.3 million were announced in December 2003.

Total receipts and expenditure of the RIDF for the three year period commencing 2000-01 to 2002-03 amounted to $178 million and $53 million respectively.

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580 Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, p.62
581 *Regional Infrastructure Development Fund Act 1999*, section 5
584 Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, pp.62-63; Department of Innovation, Industry and Regional Development, 2001-02 Annual Report, p.69
A review of the RIDF by the Victorian Auditor-General, in May 2003, drew attention to the widening gap between revenue and expenditure of the Fund. The Department responded that the long term nature of projects, in conjunction with the progressive release of funding upon the satisfactory achievement of milestones by recipients had contributed to the build up of the surplus balances within the Fund.\textsuperscript{585} The Committee is however concerned that only 29.7 per cent of total RIDF funds have been spent since 2000-01.

The absence of public information on the performance of the fund or progress of projects was also raised by the Victorian Auditor-General as part of the review of the RIDF. The Committee reiterates the need for greater disclosures and reporting of actual achievements of the RIDF relative to those expected, as recommended in the review of the Auditor-General.

The Committee recommends that:

**Recommendation 54:** The Department of Innovation, Industry and Regional Development:

(a) include in its annual report, information on the progress of Regional Infrastructure Development Projects against established milestones; and

(b) assess the implications of any delays in implementing funded projects on promoting development within Regional Victoria.

The Committee is aware that an economic impact evaluation of the RIDF was commissioned by the Department, with submissions invited from interested parties in July 2002.\textsuperscript{586} The Committee is pleased to note the evaluation report identified that projects funded through the RIDF will generally have a significant, positive economic outcome in the immediate region. The Committee was also advised that the report further indicated that on a statewide basis, $93 million of RIDF

\textsuperscript{585} Victorian Auditor-\textsuperscript{General’s Office, Report on Public Sector Agencies, May 2003, p.29}

\textsuperscript{586} Ibid, p.28
investment considered by the report would deliver $879 million of economic benefit to Victoria over the next 20 years.  

8.1.3 Employee expenses

The Department employed 667 staff (excluding casuals or people deemed to be inoperative, e.g. on long term leave or seconded out of the Department) at 30 June 2003. Total employee costs (including salary and wages, superannuation, annual leave and long service leave expenses, and other salary on-costs) for 2002-03 of $56.2 million were in line with budgeted costs of $57.1 million. Executive officers accounted for 6.5 per cent of total staff numbers and 9 per cent of total employee costs.

The Committee was advised that there were no voluntary departure package payments or bonus payments to non-executive staff during 2002-03. Bonus payments of $425,501 were however made to executive officers. The Department explained that eligibility for bonus payments to non-executive staff are made in accordance with departmental policy where the individual employee has made a significant contribution towards improving organisational efficiency and effectiveness or made a significant achievement, which does not form part of their normal duties.

Other employee related costs during 2002-03 included WorkCover premiums of $889,525 for the Department and its Agencies of which $188,942 related to the Department. Three stress related claims were also lodged with the Department and its Agencies during 2002-03 at a total cost of $45,301.

8.1.4 Asset investment program

The Asset Investment Program of the Department for 2002-03 involved two major projects, the Australian Synchrotron Project and the Docklands Film and Television Studio. The State has allocated total funding of $197.2 million for these two projects.

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587 Department of Innovation, Industry and Regional Development response, received 29 January 2004, to the Committee’s follow-up questions
588 Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, p.79
589 Ibid, p.44
590 Ibid, p.8
591 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.3
592 Ibid, p.9
593 Ibid, p.9
594 Budget Paper No.1, 2003-04 Public Sector Asset Investment Program, p.47
In June 2001, the Government endorsed a funding allocation of $40 million towards the construction of the TV and Film Studio (Project) at the Docklands Precinct, completion of which was expected in March 2004. The Minister for Innovation announced on 28 February 2004 that the project had been completed ahead of schedule. The Department subsequently confirmed that at the end of February 2004, the builder and developer concluded their agreement for the first stage of construction works involving five sound stages. The construction of a sixth sound stage has been deferred to 2006. At 30 June 2003, $22.4 million had been incurred on the project against a Budget of $30.5 million, while total project expenditure as at 30 March 2004 amounted to $38.6 million.

The project was reviewed by the Auditor-General in February 2003 and covered tendering, financing and costing arrangements. The report estimated the State’s outlays for the project at $46.8 million including a $31.5 million loan to the developer to be repaid to the State as a certain percentage of the developer’s earnings from the project. The loan does not attract interest for two years after which a concessional interest rate will apply. Other costs included the value of the land ($8.7 million), ground water remediation ($1.4 million), interim studio ($1.2 million), land tax foregone ($2.4 million) and administration costs ($1.6 million).

The Auditor-General indicated that the total estimated cost outlays to the State would be partly offset by revenue from land sales to the value of $3 million.

As significant progress has been made in relation to this project, the Committee suggests the Department include relevant information in its 2003-04 annual report.

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595 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.24
596 Hon J. Brumby, MP, Minister for Innovation, media release, Work Complete on Docklands Studio, 28 February 2004
597 Department of Innovation, Industry and Regional Development response, received 15 March 2004, to the Committee’s follow-up question
598 Victorian Auditor-General’s Office, Report on Public Sector Agencies, February 2003, p.177
599 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.24
600 Department of Innovation, Industry and Regional Development response, received 31 March 2004, to the Committee’s follow-up question
601 Ibid
602 Ibid
The Committee recommends that:

**Recommendation 55:** The Department of Innovation, Industry and Regional Development, include in its 2003-04 annual report:

(a) a summary of the key components of the TV and Film Studio project that have been completed;

(b) details of the works that are scheduled for completion in future periods;

(c) actual and budget project costs; and

(d) details of any key changes or amendments in project arrangements.

**Synchrotron Project**

The Government has committed funding of $157 million of the total estimated cost of $206 million towards the construction of the synchrotron facility. The Government expects to source the balance of funding from other governments, universities and research institutions.

During 2002-03, minimal expenditure for capital works ($2.2 million against budgeted expenditure of $13.5 million) was incurred on the synchrotron facility. The Department advised that site works and tendering for the construction of the synchrotron building commenced in October 2002. A number of user meetings and community consultation forums were also undertaken during 2002-03.

Notwithstanding the reduced level of actual expenditure during 2002-03, the Department indicated that the project is on track to meet hand-over performance criteria on time (2007) and within Budget.

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603 Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, p.74
605 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.39
606 Ibid
Since July 2003, separate contracts have been awarded for the construction of the building to house the synchrotron ($39.4 million)\(^607\) and for the installation and commissioning of the injector system which forms a crucial component of the facility.\(^608\) In March 2004, a further contract for $6 million was announced by the Minister for Innovation for the design and supply of over 200 giant magnets for the project.\(^609\)

The Committee has previously recommended in its Report on the 2003-04 Budget Estimates that the Department continue to actively negotiate with and seek support from the Commonwealth Government, other States and interested parties to ensure that the project will meet the needs of their research communities, that the beam lines (which are an integral part of the facility) are fully subscribed and that investors and users are prepared to cover operating costs.\(^610\)

In January 2004, the Minister for Innovation announced that contributions of $15 million will be provided by two universities and a major research institute towards initial beamlines planned for the facility.\(^611\)

The Committee observed that there is very limited information on the progress and status of major investment initiatives within the annual report of the Department. As significant funds have been committed towards the synchrotron facility and the TV and Film Studio development, the Department should ensure that information on funding, expenditure and progress of major projects is adequately disclosed in its annual report.

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\(^607\) Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, p.74  
\(^611\) Hon. J. Brumby, MP, Minister for Innovation, media release, ‘$15 million boost for Australian Synchrotron’, 20 January 2004
The Committee recommends that:

**Recommendation 56:** The Department of Innovation, Industry and Regional Development include in its annual report, the status of its key asset investment initiatives detailing the level of committed funding, actual costs incurred to date, estimated total project costs and the progress of projects against established milestones.

### 8.2 Output group expenditure analysis

The output structure of the Department for 2002-03 comprised 4 output groups with responsibility for delivering 14 outputs. The total cost involved in delivering outputs during this period was $308.2 million as detailed in Exhibit 8.5

**Exhibit 8.5**

<table>
<thead>
<tr>
<th>Output Group</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Variation ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2002-03 Budget</strong></td>
<td><strong>2002-03 Actual</strong></td>
<td><strong>Variation</strong></td>
<td></td>
</tr>
<tr>
<td><strong>($ million)</strong></td>
<td><strong>($ million)</strong></td>
<td>($ million)</td>
<td></td>
</tr>
<tr>
<td>Innovation and Policy</td>
<td>108.0</td>
<td>87.6</td>
<td>20.4</td>
</tr>
<tr>
<td>Business and Regional Development</td>
<td>176.2</td>
<td>169.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Industrial Relations</td>
<td>12.0</td>
<td>9.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Tourism</td>
<td>23.8</td>
<td>19.1</td>
<td>4.7</td>
</tr>
<tr>
<td>Employment Programs</td>
<td>22.1</td>
<td>22.1 (b)</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>342.1</td>
<td>308.2</td>
<td>33.9</td>
</tr>
</tbody>
</table>

Notes:
- (a) 2002-03 Budget reflects the revised Budget disclosed in the 2003-04 Budget Estimates, Budget Paper No. 3.
- (b) Employment programs output group transferred to the Department for Victorian Communities in January 2003 following the machinery of government changes.


The Committee was informed that variations in output expenditure were mainly linked to delays in the implementation of budgeted projects more notably in the areas of Tourism Recovery, Agenda for New Manufacturing, Business Development and STI Initiative.612

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612 Department of Innovation, Industry and Regional Development response, received 17 February 2004, to the Committee’s follow-up questions
The Department advised that there was no reallocation of funds between Output Groups during 2002-03. There were also no significant movements in funding between various outputs within an Output Group.613

8.3 Performance information

The Department was directly responsible for the delivery of a large proportion of the performance measures published in its 2002-03 annual report. Tourism measures were the responsibility of Tourism Victoria, a separate statutory authority while the Department of Education and Training was responsible for some of the Strategic Policy measures relating to Design Capabilities.

The Committee noted that the majority of published performance targets were achieved by the Department during 2002-03 with higher than expected performance outcomes recorded in a number of areas including the facilitation and announcement of new investments of $2.4 billion against a target value of $1.2 billion, investments attracted to Rural Victoria of $880 million against a target value of $300 million and exports facilitated of $864 million against a target measure of $600 million.614

The Committee requested explanations from the Department for variances in actual to target performance for performance measures detailed in Exhibit 8.6.

Exhibit 8.6

<table>
<thead>
<tr>
<th>Output/Measure</th>
<th>Target 2002–03</th>
<th>Actual 2002–03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation and Policy – Strategic Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Centres of Excellence proposals funded</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Business – Business Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies participating in Innovation Insights Visits Program</td>
<td>200</td>
<td>135</td>
</tr>
<tr>
<td>Industrial Relations – Industrial Relations Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delivery of Partners at Work Programs</td>
<td>40</td>
<td>27</td>
</tr>
<tr>
<td>Tourism – Tourism Marketing and Event Facilitation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visitvictoria.com monthly page impressions delivered</td>
<td>600 000 to 650 000</td>
<td>1.1 million</td>
</tr>
<tr>
<td>Investment projects facilitated</td>
<td>$200-250 million</td>
<td>$524 million</td>
</tr>
</tbody>
</table>

Source: Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, pp.16, 28, 33 and 37

613 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.15
614 Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, p.27
The Department provided the following explanations for variances between actual and target performance:

- extensive stakeholder consultation resulted in delays in the completion of a proposal to assess the feasibility and sustainability of an Aerospace/Automotive Design Centre of Excellence;

- delays in the completion of the design strategy for the above mentioned Design Centre were due mainly to the consultation and research phase being longer than originally anticipated;

- delays in the commencement of the Innovation Insights Visits Program were attributed to the State election held in November 2002;

- Delivery of Partners at Work Program was slowed by the 2002 State election, a fall in the number of applications received and a review of the program undertaken in 2003. The Department advised that a review by an external consultant of the program and the recommendations in the consultant’s report are currently being considered;

- the increase in visitation numbers to the Tourism Victoria website was attributed to improvements in integration with tourism marketing campaigns, search engine placement, return visitation and improved navigation, content and features; and

- increased confidence of private investors in regional tourism development, including golf opportunities, accounted for the increase in actual value of tourism projects facilitated against target values.

While the Committee recognises the achievement of published performance measures by the Department in 2002-03, the Committee believes that there is scope for enhancing the quality of performance measures that are currently published in the annual report of the Department to more clearly demonstrate the extent to which program objectives or outcomes have been or are being achieved. For example, the published indicators for the Regional Infrastructure Development Fund focus on the number of projects that have been funded as opposed to the key benefits that have been derived from these projects.

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615 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.10-12
The Committee also noted that disclosure of performance information in the annual report of the Department was not adequately supported by explanations for material variances between actual and target performance outcomes. There was also no disclosure in the annual report of the actual cost of delivering outputs against Budget. Consequently, the value of performance information was diminished in the absence of this information.

The Committee recommends that:

**Recommendation 57:** To provide a more effective means of evaluating the performance of the Department of Innovation, Industry and Regional Development, performance indicators should clearly demonstrate the extent to which key outcomes or results have been achieved.

**Recommendation 58:** To enhance the quality and usefulness of performance information disclosures, the Department of Innovation, Industry and Regional Development include in future annual reports actual to Budget cost outcomes for each output within the Output Groups and provide explanations for material variations in actual to target performance outcomes.

### 8.3.1 Benchmarking of performance measures

In developing performance measures for each of its output groups, the Department advised that:

- Victoria has been benchmarked as a global direct investment location, details of which are updated every six months. However this information is not specifically related to any published performance targets;

- Victoria’s capacity in seven key industry sectors has been benchmarked against 38 competitor locations. The Department

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616 Ibid, pp.14-15
advised that this information enables the development of marketing and positioning strategies to better target companies in the global market with the aim of increased investment in Victoria;

• performance indicators for Science Technology and Innovation (STI) initiatives were developed after an international literature search of science and technology programs developed overseas and in Australia, however no performance targets in 2002-03 or in 2003-04 were based on (national) benchmark data, instead, targets were based on specific program delivery measures;

• performance targets for tourism outputs were determined by predicting the impact of Tourism Victoria’s marketing activities for 2002-03 using a range of research on historical information. National benchmarks were used for developing targets in relation to visitation numbers, establishing awareness levels from advertising and valuing Earned Ink (being the value of media coverage obtained);

• at the time that performance measures on design capability were developed, the Department advised that State based data was not available. However the Department indicated that research funded through the Design Initiative provides benchmark data which might be used for the development of performance measures in the future;

• measures for programs administered by Regional Development Victoria are not readily comparable to national benchmarks due to the different rationale in which programs are delivered by States and Territories; and

• no benchmarking was used to develop performance targets for outputs and new initiatives for industrial relations.

In 2003, the Department engaged a consultant to conduct a study that compared particular dimensions of its performance against those of other States. The Department advised that this study only further highlighted the difficulties of undertaking comparisons as each State reports the performance of their industry development activities in differing ways, making it difficult to obtain a set of data that is comparable between jurisdictions.617

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617 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.14
The Committee strongly advocates the use of benchmarking in developing performance measures and targets. The Committee also recognises that benchmarked data may not always be available to facilitate direct comparisons of performance. However, to the extent that benchmarked information can be tailored to the specific conditions and factors that impact on the delivery of outputs within the Department, benchmarks should be utilised by the Department wherever practical.

The Committee recommends that:

Recommendation 59: To enhance the quality of performance measures and targets and to facilitate comparisons of performance with organisations involved in the delivery of similar outputs or services, the Department of Innovation, Industry and Regional Development continue to research the availability and applicability of benchmarked data in developing its performance measures and targets.

8.4 Status of major initiatives

During 2002-03, additional funding of $32.9 million was provided for new output initiatives to be implemented by the Department. The Budget also provided for the commencement of new infrastructure investment projects to the value of $44 million (including funding of $10.1 million re-phased from 2001-02 to 2002-03 for the Docklands Film and Television Studio). The status of some of the more significant initiatives at 30 June 2003, in terms of cost and the achievement of pre-determined targets are addressed in the following paragraphs.

**Australian Synchrotron Project** - Actual expenditure for capital works of $2.2 million was well below targeted expenditure of $13.5 million. The Department however advised that performance targets for the project were achieved during the year and that $11.3 million of program funding...
was committed and approved by the Department of Treasury and Finance to be carried forward to 2003-04.620

The ability of the Department to achieve its performance targets despite the significantly lower level of expenditure incurred on the project when compared to Budget, raises concerns about the nature of the performance measures and targets currently being used to monitor project performance. In this regard, the Committee notes the generic nature of the performance measures and targets that were published in the annual report of the Department.

The Committee recommends that:

Recommendation 60: More specific outcomes based performance measures and targets be developed and published in respect of the synchrotron project. A greater correlation with project costs should also be achieved in developing performance measures and targets.

Further details on the synchrotron project are provided at Section 8.1.4.

Biotechnology - Funding of $4.5 million was provided during 2002-03 to implement the Biotechnology Strategic Development Plan which was launched in June 2001.621 The key objectives of the plan include developing a biotechnology skill base, developing Victoria’s research base, commercialising Victoria’s biotechnology, building Victoria’s corporate base and marketing Victoria’s capabilities and providing Government leadership and support.622 The Department advised that implementation of the plan was underway with actual expenditure of $2.9 million being incurred during 2002-03, around $1.6 million less than Budget. Reasons for variances in actual to budget expenditure were linked to a lower number of Steering Group meetings (3 out of a target of 4),623 continued emphasis on cost-effectiveness and more targeted expenditure on international conferences.624

620 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.39
621 Budget Paper No.2, 2002-03 Budget Statement, p.192
623 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.41
624 Ibid, p.45
Published performance measures in relation to the Biotechnology Strategic Development Plan are limited to the number of meetings held by the Support Platform Technology Steering Group and the number of biotechnology e-bulletin editions produced. These measures alone do not indicate whether the broader objectives of effectively exploiting Victoria’s biotechnology capabilities are being achieved.

The Committee recommends that:

**Recommendation 61:** Performance measures in relation to the implementation of the Biotechnology Strategic Development Plan be developed to more clearly reflect the extent to which the key objectives of the plan are being achieved.

**Centre for Energy and Greenhouse Technologies** – This initiative is aimed at establishing a centre to facilitate research into reducing the greenhouse intensity of energy supply and use in Victoria. The Department advised that at 30 June 2003 this initiative was on track with the completion of the Centre’s Business Plan and the commencement of Centre operations in the 4th Quarter of the financial year. Approval of the Centre for Energy and Greenhouse Technologies Funding Agreement was provided by the Minister for Innovation in June 2003, consequently $3 million in funding budgeted for project investment in 2003 was carried forward to 2003-04.

**Developing Victoria’s design capabilities** – Funding of $4 million was provided during 2002-03 for initiatives aimed at expanding Victoria’s profile as an international design centre. Actual expenditure of $3 million was below Budget due to delays in the completion of a strategic plan and related research and feasibility study into the aerospace/automotive design centre of excellence. These delays were attributed to extensive stakeholder consultations that were required to scope and develop projects.
Agenda for new manufacturing – Expenditure of $3.3 million was 58.8 per cent below targeted expenditure of $8 million for this initiative which is aimed at encouraging growth of the manufacturing industry. The combined impacts of the time required to develop and launch a number of initiatives, normal delay between grants being approved and payments being made and the interruption to normal business during the caretaker period of the State election were attributed to lower levels of expenditure incurred during 2002-03.630

Overall, expenditure for new initiatives funded during 2002-03 has been significantly lower than Budget, with expenditure of $41.62 million being incurred against a budget of $76.9 million.631 While the Committee acknowledges the explanations provided by the Department in regard to the above, the implications of deferring expenditure to future periods needs to be adequately assessed by the Department in terms of how this impacts upon the achievement of Government and departmental objectives during 2002-03 and future cost and funding impacts.

8.5 Status of major programs

(a) Science, Technology and Innovation (STI) grants

The STI initiative was launched in 1999 with a total funding commitment of $310 million over 5 years.632 A wide range of programs aimed at driving innovation across the Victorian economy and delivering science, technology and research infrastructure are funded under this initiative.633

During 2002-03, $52.3 million in STI grant payments were made by the Department against a Budget of $75 million which included an amount of $25 million carried forward from 2001-02. The Department advised that the variance in expenditure was due to lead times for selecting and establishing quality projects being longer than originally estimated.634

The Committee was unable to identify from the annual report of the Department, the total level of STI funding, expenditure and expenditure commitments at 30 June 2003. In addition, the Committee noted that the

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630 Ibid, p.25
632 Department of Innovation, Industry and Regional Development, 2001-02 Annual Report, p.8
633 Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, p.13
634 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.44; Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, p.62
performance indicators published in the annual report of the Department do not clearly identify the effectiveness of the STI initiative. However, an Output Review of the STI Initiative conducted by the Government in August 2002 found that output targets set for the period 1999-2000 and 2001-02 had been achieved or exceeded.

The review also found that while it is too early to determine the relative impact of the STI Initiative on the economy, the STI Initiative is having a positive impact and is on target to meet its objectives.\textsuperscript{635}

The Committee recommends that:

**Recommendation 62:** The Department of Innovation, Industry and Regional Development include in its annual report additional information on the total funding provided for Science, Technology and Innovation and expenditure commitments to date.

In October 2002, the Government committed an additional $310 million over the next five years for the new STI programs announced in its Innovation Statement: *Victorians, Bright Ideas, Brilliant Future*. Specific initiatives of the Innovation Statement included:\textsuperscript{636}

<table>
<thead>
<tr>
<th>Initiative</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>STI Second Generation flexible funding</td>
<td>196.0</td>
</tr>
<tr>
<td>Our Rural Landscape</td>
<td>50.0</td>
</tr>
<tr>
<td>VicStart/Building Innovative Business</td>
<td>30.0</td>
</tr>
<tr>
<td>E-Prescribing</td>
<td>24.0</td>
</tr>
<tr>
<td>Innovation in Teaching Science</td>
<td>5.0</td>
</tr>
<tr>
<td>Smart Freight</td>
<td>4.0</td>
</tr>
<tr>
<td>Building Design Capacity</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>310.0</strong></td>
</tr>
</tbody>
</table>

Source: Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, p.12

The implementation of the above initiatives are expected to commence in 2003-04.

STI Second Generation Flexible Funding which is a major component of the additional STI funding allocation, represents funding that has not

\textsuperscript{635} Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, p.13  
\textsuperscript{636} Ibid, p.12
been tied to any specific initiatives and that will be available for innovation projects through a competitive grants process. A priority setting process to guide the Government’s investment of the STI Second Generation Flexible funding component is being established by the Department.

(b) Technology Commercialisation Program (TCP)

During 2002-03, the Department spent $3.8 million on its TCP against a Budget of $6.6 million. The balance which represented TCP contracts outstanding at 30 June 2003 was carried forward into the following financial year.

TCP performance outcomes to 30 June 2003 included the provision of assistance to over 4,200 inventors, assessment of over 1,700 commercialisation opportunities, the facilitation of more than $84 million in investment and the establishment of 56 new technology businesses.

(c) Investment incentive contracts

During 2002-03 the Government entered into new investment incentive contracts totalling $86 million with companies in the key sectors of Information and Communication Technologies ($41.8 million) and Automotive ($31.7 million). Actual payments for the year totalled $19.6 million and were distributed across 17 companies. The Committee was notified that the Budget for this initiative is structured in a manner that provides access to additional funding through a Treasurer’s Advance.

Investment Incentive Contracts were expected to generate investments of $1 billion and create 4,600 jobs in Victoria. The Committee noted that due to a strong domestic market, the value of new investments facilitated and the number of jobs derived from such investments were substantially higher than target levels set for 2002-03.
(d) National Stem Cell Centre grant

A grant agreement was finalised with the National Stem Cell Centre during 2002-03, for the provision of infrastructure funds to the value of $11.25 million. The Department informed the Committee that detailed performance measures and indicators have been built into the reporting framework of the grant agreement to include:

- details of research projects undertaken by the Centre and their contribution or potential to contribute to advances in biotechnology knowledge, health, education and social and economic development;
- the extent to which the Centre is achieving commercialisation;
- international scientific and technological collaboration;
- interdisciplinary research and better linkages between the Centre, academic and research institutions and industry;
- enhancing the skill base and training level of technologists;
- details of in-kind contributions to the Centre; and
- evidence of compliance by the Centre with biological standards.

The Department also advised that Commonwealth and State Governments are working collaboratively to ensure the effective monitoring of grants to the Centre. Quarterly payments to the Centre are based on documented evidence of satisfactory performance, due diligence against project milestones and annual independently audited financial reports.

During 2002-03, the Centre sought funding of $500,000 to purchase scientific equipment. The Centre also recruited its chief scientist during this period.

644 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.47
645 Department of Innovation, Industry and Regional Development response, received 18 March 2003, to the Committee’s follow-up question
646 Ibid
647 Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.47
Australian Tourism Exchange

The Australian Tourism Exchange (travel fair) was staged during June 2003 at a total cost of $1.7 million against a Budget of $1.8 million.\textsuperscript{648} The Department advised that over 1,800 delegates from 44 countries attended, including 90 tourism businesses from Victoria.\textsuperscript{649}

To determine the success of the Australian Tourism Exchange Program the Committee recommends that:

**Recommendation 63:** The Department of Innovation, Industry and Regional Development quantify and publish in its 2003-04 annual report, the benefits to Victoria from hosting the Australian Tourism Exchange.

Recovery programs

Recovery programs funded during 2002-03 included Drought Recovery ($500,000), Operation Recovery ($7.7 million) and Bushfire Recovery ($2 million).\textsuperscript{650}

Payments for 2002-03 under the Drought Recovery Program included grant payments to areas affected of $340,000 and an advertising campaign to stimulate visitation to drought affected areas at a total cost of $139,091.\textsuperscript{651}

Expenditure of $5 million was incurred under the Operation Recovery Program to assist tourism businesses affected by the September 11 incident and the collapse of Ansett Airlines. Payments were made towards marketing and promotional activities ($2.7 million) and airline services ($2.3 million).\textsuperscript{652}

Total expenditure of $383,871 was incurred under the Bushfire Recovery Program (which spans a period of two years to 2004) to support the re-invigoration of the tourism industry in fire affected areas. The remaining expenditure is expected to occur over 2003-04.\textsuperscript{653}

\textsuperscript{648} Ibid, p.54
\textsuperscript{649} Department of Innovation, Industry and Regional Development, 2002-03 Annual Report, p.35
\textsuperscript{650} Department of Innovation, Industry and Regional Development response, received 6 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.54-56
\textsuperscript{651} Ibid, p.55
\textsuperscript{652} Ibid
\textsuperscript{653} Ibid, p.56
The Committee recommends that:

Recommendation 64: To enhance the level of transparency and accountability of payments under the Operation Recovery Program, disclosure of key outcomes be included in the 2003-04 annual report of Tourism Victoria.
Report on the 2002-03 Budget Outcomes
Chapter 9: Department of Justice

Key Findings of the Committee:

9.1 In 2002-03, the total Budget for the Department of Justice and its agencies, adjusted for the machinery of government changes, was $2,051.6 million. Actual expenditure for the year was $2,132.6 million, $81 million or 4 per cent above Budget.

9.2 The Department of Justice reported an operating surplus of $20.1 million in 2002-03, which was $9.4 million higher than the 2002-03 budgeted operating result. This was due mainly to additional earnings on trust fund investments and lower than expected depreciation and capital asset charge expenses.

9.3 During 2002-03, the Treasurer approved additional funding of $58.9 million to meet additional costs of fire suppression activities, WorkCover expenses for Victoria Police and supplementation for privately-owned correctional facilities.

9.4 In 2002-03, expenditure on the Department of Justice’s asset investment program was $127 million. Major asset investment projects completed in 2002-03 included the expansion of permanent and temporary beds at Barwon prison ($12 million) and the Dame Phyllis Frost Centre ($10.8 million), a police operational safety and tactics training complex ($8.4 million) and a number of new and upgraded police stations.

9.5 Over the past four years, the Estate Agents’ Trust Fund has consistently reported a surplus of revenue over expenses, which has resulted in the balance of the fund increasing from around $100 million in 1999-2000 to over $175 million in 2002-03.

9.6 The Department of Justice largely achieved or exceeded its output performance targets set out in the 2002-03 Budget Papers.

9.7 Funding to Victoria Police increased by 8.6 per cent in 2002-03, mainly as a result of the appointment of an additional 346 employees.
Key Findings of the Committee (continued):

9.8 In 2002-03, reported crimes in Victoria declined by 5.5 per cent. When the number of recorded offences is expressed as a rate per 100,000 people, reported criminal offences declined by 6.8 per cent.\(^{654}\)

9.9 Legal services provided through the Victorian Government Solicitor cost $22.2 million in 2002-03, of which $14.9 million was provided by 33 pre-qualified legal firms. Under the pre-qualification criteria, the legal firms will be required to provide pro bono legal services to the value of $1.5 million in 2003-04.

9.10 An increased number of compliance checks of gaming venues were conducted by the Department of Justice in 2002-03 to ensure venues comply with new legislative requirements on player information and lighting.

The Department of Justice supports the ministerial portfolios of the Attorney-General; Police and Emergency Services; Corrections; Consumer Affairs; and Racing and Gaming.

As part of the machinery of government changes in December 2002, the Department assumed responsibility for the regulation of gaming, racing, liquor licensing and trade measurement.\(^ {655}\) Responsibility for the registration of births, deaths and marriages was transferred to the newly-formed Department for Victorian Communities.\(^ {656}\)

9.1 Financial statement analysis

The total Budget for the Department of Justice and its agencies, adjusted for the machinery of government changes, was $2,051.6 million in 2002-03.\(^ {657}\) Actual expenditure for the year was $2,132.6 million, $81 million or 3.9 per cent above Budget.\(^ {658}\)

The Department reported an operating surplus of $20.1 million in 2002-03, almost doubling the surplus anticipated in the 2002-03 adjusted

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\(^{654}\) Victoria Police 2003, *Crime Statistics 2002/03*, December, Table 2.3, p.20

\(^{655}\) *Budget Paper No. 3, 2003-04 Budget Estimates*, p. 205

\(^{656}\) Department of Justice, 2002-03 Annual Report, p.80

\(^{657}\) *Budget Paper No. 3, 2003-04 Budget Estimates*, p.245

\(^{658}\) Department of Justice, 2002-03 Annual Report, p.132
budget (see Exhibit 9.1). The Department advised the Committee that the most significant factors driving the result were higher than expected receipts of non-appropriation revenue (including higher than expected interest earnings of $20 million on investments for the Estate Agents’ Guarantee Trust Account and the Residential Tenancy Fund) and an underspend of $22.5 million against available funding for depreciation and capital asset charges.659

Exhibit 9.1

Department of Justice
Statement of Financial Performance 2002—03

<table>
<thead>
<tr>
<th>Revenue from ordinary activities</th>
<th>2002–03 Adjusted Budget (a) $ million</th>
<th>2002–03 Actual $ million</th>
<th>Variation (a) $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output appropriations</td>
<td>2001.7</td>
<td>2065.6</td>
<td>63.9</td>
</tr>
<tr>
<td>Resources received free of charge or for nominal consideration</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Commonwealth grants</td>
<td>0.0</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Other revenue and revenue from other parties (includes fees and fines)</td>
<td>60.6</td>
<td>85.9</td>
<td>25.3</td>
</tr>
<tr>
<td>Total</td>
<td>2062.3</td>
<td>2152.4</td>
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<table>
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<th>2002–03 Adjusted Budget (a) $ million</th>
<th>2002–03 Actual $ million</th>
<th>Variation (a) $ million</th>
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<tr>
<td>Employee benefits</td>
<td>1187</td>
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<td>Depreciation and amortisation</td>
<td>51.8</td>
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<tr>
<td>Resources provided free of charge or for nominal consideration</td>
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<td>Grants and other payments</td>
<td>110.2</td>
<td>121.7</td>
<td>11.5</td>
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<tr>
<td>Capital asset charge</td>
<td>80.3</td>
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<td>Other expenses (includes supplies and services and borrowing costs)</td>
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<td>648.4</td>
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<td>Total</td>
<td>2051.7</td>
<td>2132.2</td>
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<td>Net result for the reporting period</td>
<td>16.7</td>
<td>20.1</td>
<td>9.4</td>
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</table>

Notes:  
(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003  
(b) A negative variance indicates there is a Budget surplus for the particular line item  
Sources: Budget Paper No. 3, 2003-04 Budget Estimates, p.245, Department of Justice, 2002-03 Annual Report, p.132

In 2002-03 the Department received an additional $80.5 million. Most of the additional funds were due mainly to advances by the Treasurer of $58.9 million for supplementary funding for fire suppression ($15.7 million), additional WorkCover expenses for Victoria Police ($10.6 million) and supplementation for contracts relating to privately-owned correctional facilities ($10.3 million).660

659 Department of Justice response, received 19 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.3–4
660 Ibid, pp.37–39
The Department advised the Committee of the following major reasons for the variations between the adjusted Budget and the actual results in 2002-03:\textsuperscript{661}

- other revenue and revenue from other parties — higher than expected interest was earned for the Estate Agents’ Guarantee Fund ($9.3 million) and the Residential Tenancy Fund ($10.7 million);
- depreciation and amortisation, and the capital asset charge — a number of major capital works projects were completed late; and
- grants and other payments — additional funding was provided to the Country Fire Authority ($19.4 million) and the Metropolitan Fire and Emergency Services Board ($5.4 million) during the 2002-03 fire season and for enterprise agreements negotiated in November 2002. Grants from the Estate Agents’ Guarantee fund were $3.3 million lower than expected.

At 30 June 2003 the Department controlled assets valued at around $1.4 billion, an increase of 0.4 per cent from the adjusted 2002-03 Budget (see Exhibit 9.2).

\textsuperscript{661} Ibid, pp.3–4
Exhibit 9.2

Department of Justice
Statement of Financial Position 2002—03

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
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<tr>
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<td>2002–03 Adjusted Budget</td>
<td>2002–03 Actual</td>
<td>Variation $</td>
</tr>
<tr>
<td></td>
<td>(a) $ million</td>
<td>$ million</td>
<td>$ million</td>
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<tr>
<td><strong>Current assets</strong></td>
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<tr>
<td>Cash assets</td>
<td>1.9</td>
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<td>Other financial assets</td>
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<td>Receivables</td>
<td>25.6</td>
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<tr>
<td>Inventories</td>
<td>7.8</td>
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<tr>
<td>Prepayments</td>
<td>6.4</td>
<td>9.2</td>
<td>2.8</td>
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<tr>
<td>Other</td>
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<tr>
<td><strong>Total current assets</strong></td>
<td><strong>225.9</strong></td>
<td><strong>407.8</strong></td>
<td><strong>181.8</strong></td>
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<td><strong>Non current assets</strong></td>
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<tr>
<td>Receivables</td>
<td>209.4</td>
<td>61.1</td>
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<tr>
<td>Inventories</td>
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<tr>
<td>Other financial assets</td>
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<tr>
<td>Property, plant and equipment</td>
<td>970.9</td>
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<tr>
<td>Intangible assets</td>
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<tr>
<td>Other</td>
<td>3.4</td>
<td>2.1</td>
<td>-1.3</td>
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<tr>
<td><strong>Total non current assets</strong></td>
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<td><strong>1016.5</strong></td>
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<td><strong>Total assets</strong></td>
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<td><strong>1424.2</strong></td>
<td><strong>5.3</strong></td>
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<td><strong>Current liabilities</strong></td>
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<td>Payables</td>
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<td>Interest bearing liabilities</td>
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<tr>
<td>Provisions</td>
<td>79.2</td>
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<td>Other</td>
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<td>-3.2</td>
</tr>
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<td><strong>Total current liabilities</strong></td>
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<td><strong>189.8</strong></td>
<td><strong>-6.8</strong></td>
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<tr>
<td><strong>Non current liabilities</strong></td>
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<td>Interest bearing liabilities</td>
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<td>Provisions</td>
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<td>23.8</td>
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<tr>
<td>Amounts owing to other departments</td>
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<tr>
<td>Other</td>
<td>0.0</td>
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<td>7.2</td>
</tr>
<tr>
<td><strong>Total non current liabilities</strong></td>
<td><strong>280.1</strong></td>
<td><strong>304.0</strong></td>
<td><strong>23.9</strong></td>
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<td><strong>Total liabilities</strong></td>
<td><strong>476.6</strong></td>
<td><strong>493.8</strong></td>
<td><strong>17.2</strong></td>
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<tr>
<td><strong>Net assets</strong></td>
<td><strong>942.3</strong></td>
<td><strong>930.5</strong></td>
<td><strong>-11.8</strong></td>
</tr>
</tbody>
</table>

Notes:  
(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003  
(b) A negative variance indicates the actual result for the particular line item was below Adjusted Budget

Sources: Budget Paper No. 3, 2003-04 Budget Estimates, p.246, Department of Justice, 2002-03 Annual Report, p.133

Major reasons for the variations between the adjusted Budget and actual results in 2002-03 were:662  

- cash assets – the variation relates primarily to Victoria Police funds held in trust;

662 Ib, p.5
receivables – the variation between current and non-current receivables largely reflects the fact that the proportion of the State Administrative Unit (SAU) balance that is likely to be drawn on in the coming 12 months is assessed at the time of preparing the annual report, with the balance reported as non-current. For Department of Treasury and Finance budgeting purposes, all movements in the SAU are deemed to be current. When current and non-current receivables are combined, the variation was $2.8 million; and

provisions – the variation reflects the impact of staff variations and changes in the wage inflation and discount rate adjustments specified by the Department of Treasury and Finance.

9.1.1 Asset investment program

The Committee noted that the Department of Justice was responsible for the administration of an infrastructure program consisting of 50 separate projects valued at around $626 million. Asset initiatives in the 2002-03 Budget that form part of this investment program include a $14.9 million consolidated logistics facility for Victoria Police; $25.1 million for new police stations in Footscray and Coburg and additional funding for the Rowville police station; and $5 million for stage 5 of the rural police station replacement program. This estimate excludes the capital costs associated with the Mobile Data Network project, which was announced in the 2002-03 budget.

The Department advised the Committee that a service agreement for the Mobile Data Network was signed with Motorola on 25 June 2003. Full service delivery is scheduled to commence in November 2005, more than 15 months later than the commencement date anticipated when the project was announced. The contract is valued at $140 million, with full service payments to Motorola commencing after the State’s final acceptance of the network.
By 30 June 2002, around $106 million had already been incurred on the Department’s 50 separate asset investment projects, with an additional $146 million projected to be incurred in 2002–03. Actual expenditure in 2002–03 on asset initiatives was around $127 million, with most of the asset expenditure related to the construction or upgrading of police stations and facilities (see Exhibit 9.3).

Exhibit 9.3

The Committee noted the Government is undertaking the largest police station construction program in Victoria’s history. By the end of 2006, 135 police stations will have been built or rebuilt at a cost of $280 million.

Significant asset investment projects completed in 2002–03 included:

- the expansion of accommodation facilities at Barwon prison ($12 million) and the Dame Phyllis Frost Centre ($10.8 million);

Note: Other includes a joint project for a combined Police Station and Courthouse at Heidelberg and in the Latrobe Valley

Source: Department of Justice response, received 19 December 2003, to the Committee’s 2002–03 Budget Outcomes Questionnaire, pp.26–28
• construction of a police operational safety and tactics training complex ($8.4 million);
• the construction of suburban police stations in Belgrave ($4.3 million), Eltham ($4.3 million) and Kew ($7.1 million);
• regional police stations in Bacchus Marsh ($3.9 million) and Moe ($4.6 million), with upgrades to 17 police stations in rural locations including Kaniva, Clunes and Romsey; and
• upgrades to courts in Heidelberg ($4.8 million) and Wangaratta ($537,000).

The Department advised the Committee that the total estimated investment for six projects had been reassessed and varied more than 10 per cent from the original total estimated investment cost. Total project costs for the Commonwealth Criminal Intelligence Data Base System were revised down by $800,000, due to a reclassification between capital and current expenditure. Total project costs for the works at the Deer Park and Barwon prisons increased prison capacity expansion program by 15 per cent ($29.9 million), due mainly to indexation and additional construction works. Total project costs also increased for police station construction at Endeavour Hills ($417,000), Northcote ($822,000), Rowville ($500,000) and the Latrobe Valley police station/courthouse upgrade ($2.5 million), due mainly to additional site acquisition costs.

For the Department’s 50 separate asset investment projects, actual expenditure in 2002-03 was within 10 per cent of budgeted expenditure for five projects. The Department advised the Committee that expenditure for 17 projects had varied by 10 per cent or more and expenditure for 28 projects was less than 90 per cent of Budget.

The Department reported that 30 of these projects (or a component of each project) had revised completion dates. Construction had been accelerated for three projects, resulting in revised completion dates of one to two months ahead of schedule. Completion dates for 11 projects were revised to be one to five months behind schedule, and completion dates for 15 projects were revised to be more than six months later than scheduled.

672 Ibid, p.30
673 Ibid, pp.27–28
674 Ibid
675 Ibid
676 Ibid, pp.32–34
For the six projects delayed by more than 6 months, difficulties were experienced in land acquisition and planning issues were identified as contributing to the revised completion dates. In three cases the Department advised the Committee that construction delays were related to higher than expected tenders, resulting in a need to re-evaluate project costs.677

Projects that had completion dates more than 12 months later than scheduled included:678

- the Prison Capacity Expansion Program (Statewide);
- community based corrections facilities (Melbourne);
- the Diversionary Program for Adult Aboriginal Offenders (Statewide);
- the Correctional Services Prisoner Information System (PIMS) (Statewide); and
- the Integrated Road Safety Campaign, including the Geelong Road, the Hume Highway and other Statewide road projects.

The Committee noted that the Bacchus Marsh and Kew/Hawthorn police station construction programs, and most projects completed under the Police Station Upgrade Replacement Program stages 3 and 4 were generally completed on time.679 Several police station upgrade and replacement projects (excluding stages 3 and 4) were behind schedule, with nine projects delayed two months or less and six projects delayed for periods greater than five months.680

The Department provided an explanation for the six police station construction projects delayed by 3 months or more. The Department had encountered site acquisition difficulties and planning issues for four projects, one project was delayed following a contractor going into liquidation and a higher than expected tender response had caused a delay in appointing a builder for the remaining project.681

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677 Ibid
678 Ibid
679 Ibid, pp.32–33
680 Ibid, pp.31–32
681 Ibid
The Committee recognises that the Department frequently oversees complex construction projects that may involve variables that are beyond the control of the Department, including acquiring specific land.

The timely completion of the Department’s asset projects underpins the delivery of a range of services. Where projects are not completed on time or within budget, expected improvements in performance are unlikely to be achieved. The replacement and upgrade of the Correctional Services Prisoner Information System, for example, was perceived to be ‘essential to the functioning of diversion and rehabilitation programs in prisons, community corrections and drug courts’.682 Later than expected completion of the system might have delayed the expected benefits of ‘better management of the corrections system particularly given increased prisoner numbers’.683

The Department should continually review project planning arrangements to ensure procurement processes reflect identified better practices and the experience gained from previous projects.

The Committee recommends that:

**Recommendation 65:** The Department of Justice review the adequacy of existing infrastructure project management frameworks with the view to improving the timelines of its asset investment programs.

### 9.1.2 Administered items

The Committee noted that the Department considered that administered items in general, are difficult to forecast and are not necessarily consistent from year-to-year.684 The value of assets administered by the Department at 30 June 2003 was $701 million, $422 million higher than budgeted.685 The Department’s administered operating surplus in 2002-03 was $91.2 million, around 38 per cent higher than the expected surplus.686

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682  *Budget Paper No. 2, 2002-03 Budget Statement*, p.199
683  Ibid
684  Department of Justice response, received 19 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.9
685  Ibid, p.9 *Department of Justice, 2002-03 Annual Report*, p.135
686  Ibid
The major reasons for the variation between the adjusted Budget and actual results in 2002-03 were:  
- special appropriations — lower than expected payments to victims of crime ($19.4 million) were partly offset by electoral entitlement expenses paid for the first time in 2002-03 ($6.7 million);  
- fees — higher than expected revenue from court fines enforcement ($13.2 million);  
- expenses on behalf of the State — disbursements from the Victorian Government Solicitor’s Trust Account were lower than expected ($13.9 million). This was partly offset by higher than expected bad debts relating to fines ($10.2 million);  
- grants and other payments — higher than expected grants to Victoria Police ($7 million);  
- receivables — unpaid fines were higher than expected despite the appointment of additional staff to the Sheriff’s office; and  
- other financial assets — this item represents the contributed capital or equity investment held by the government in other justice related agencies. The treatment was first introduced in the 2002–03 annual accounts. Most of the amounts relate to the Country Fire Authority ($182 million) and the Metropolitan Fire and Emergency Services Board ($121 million).

9.1.3 Trust funds

The Department informed the Committee that it controls or administers 15 principal trust funds. At 30 June 2003, the balance of these trust funds was around $232 million, with the majority in the Estate Agents’ Guarantee Fund ($178 million), the Residential Tenancy Fund ($17 million) and the Victorian Government Solicitor’s Trust Account ($15.2 million).  

Consistent differences between revenue and expenses over time have the potential to result in larger balances being held. In the case of the Estate Agents’ Guarantee Fund, a surplus of revenue over expenses over the
past four years has resulted in the fund balance increasing from around $100 million in 1999–00 to over $175 million in 2002-03 (see Exhibit 9.3).

**Exhibit 9.3**

![Graph showing the fund balance from 1999-00 to 2002-03](image)

Many of the trust funds controlled by the Department are established to support the administration of activities arising from the legislation under which they are created.689 In some cases, such as the Estate Agents’ Guarantee Fund, the Consumer Credit Fund and the Residential Tenancy Fund, grants may be paid to support specific education and research activity.690

A report by the Auditor-General highlighted that revenue generated by the Estate Agents’ Guarantee Fund consistently exceeds annual expenditure.691 In 2002-03, the surplus generated by the Fund was $30.4 million.692

The *Estate Agents Act* 1980 provides that grants may be made from the Fund for one or more of the following purposes:693

- community education programs relating to the sale, purchase or lease of real estate or businesses;

689 Ibid, pp.34–35
690 Ibid
692 Department of Justice response, received 19 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.36
693 *Estate Agents Act* 1980, s. 76(3)
• programs that promote the ownership of real estate;
• the training of estate agents and agents’ representatives;
• the promotion of the mediation or conciliation of disputes between estate agents and the public;
• the review or reform of the law and procedures concerning the lease or transfer of interests in land; and
• projects facilitating the registration of interests in land or the compilation of other information relating to the ownership of land.

The Committee noted that the Minister for Consumer Affairs, after consultation with Consumer Affairs Victoria and the Estate Agents’ Council, had approved grants valued at around $716,000 from the Estate Agents’ Guarantee Fund in 2002–03 - down from $1.9 million in 2001-02.694 The major beneficiary of funds was the Real Estate Institute of Victoria, which received over $590,000 for the provision of a professional development program for real estate agents and representatives ($548,207), home buyers seminars ($34,809) and commercial property seminars ($7,273). Other organisations receiving funds included the Boroondara City Council ($15,000), Victoria Law Foundation ($46,822) and Credit Helpline ($63,870).695

The Committee noted that the Government has recently introduced amendments to the Estate Agents’ Act 1980 to widen the general purposes for which the fund can be used and to specify additional purposes to which the excess moneys from the fund can be applied.696 The fund would also be renamed the Victorian Property Fund.697

Under the proposed amendments to the Act, the general purposes for which the fund could be used include:698

• the costs involved with administration of the regulation of bodies corporate and retirement villages under the Subdivision Act 1988 and the Retirement Villages Act 1986; and
• the residential tenancies list at the Victorian Civil and Administrative Tribunal.

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694 Consumer Affairs Victoria, Annual Reports 2002-03 (p.105), 2001-02 (p.102)
695 Ibid
696 Estate Agents and Travel Agents Act (Amendment) Bill, p.115
697 Ibid
698 Ibid
Grants from the fund will be able to be used to assist with the provision of housing for low income or disadvantaged Victorians; contribute to the development of ecologically sustainable housing, and protect Victoria’s natural and architectural heritage. The Committee believes there needs to be a sound accountability framework for the grants provided from the Estate Agents’ Trust Fund, including an assessment of how the grants will contribute to the objectives of government and non-government agencies.

The Committee recommends that:

**Recommendation 66:** The annual report of the Department of Justice include performance information on how grants made from trust funds are contributing to overall Government objectives.

### 9.2 Output group expenditure analysis

In 2002-03, the Department of Justice and its agencies were responsible for the delivery of 44 outputs, which were budgeted to cost $2,083.4 million. Actual expenditure in 2002-03 was $2,118.7 million, around 1.7 per cent higher than budgeted.

Except for the Office of the Victorian Privacy Commissioner, the Department and its agencies did not disclose the estimated and actual output costs for 2002-03 in their annual reports.

Given the flexibility that Departments have to reallocate appropriated funds across outputs, the Committee considers that the non-disclosure of the cost of outputs against the budgeted cost weakens accountability. Revisions to the Minister for Finance’s Directions (applying from 2002–03) require Departments to compare the outputs specified in the State Budget with actual performance against those targets.

The Committee considers that the Department should include this information in its annual report, irrespective of whether all or part of the output is provided by the Department or by another portfolio agency, community organisation or private sector provider.

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699 Ibid
700 Department of Justice response, received 19 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.15–16
701 Office of the Victorian Privacy Commissioner, 2002-03 Annual Report, p.72
702 Department of Treasury and Finance, Standing Directions of the Minister for Finance under the *Financial Management Act* 1994, June 2003, p.56
The Committee recommends that:

**Recommendation 67:** The Department of Justice disclose in its annual report the budgeted and actual cost for the full range of outputs in the Justice portfolio.

The Committee noted that there were no material movements of funding between output groups in 2002-03 and that there were variations in the budgeted and actual output costs. The Department advised the Committee of the reasons for material variances in excess of 10 per cent including:

- crime and violence prevention (down $2.9 million) — grant funding from the Community Support Fund originally expected to be drawn in 2002-03 is now spread over two years;
- emergency readiness and support (up $3.4 million) — the variation reflects the receipt of additional project funding under the Office of Emergency Services Commissioner’s revenue retention agreement;
- Metropolitan Fire and Emergency Services (up $3.5 million) — the Treasurer’s Advance provided additional funding for a new enterprise agreement;
- State-wide Emergency Services (down $4.7 million) — the variation is due to a reduced depreciation expense in respect of assets held by the Victoria State Emergency Service;
- Legal Policy (down $800,000) — the variation reflects a significantly complex work program resulting in some projects not being completed on time;
- Native title framework (down $400,000) — the indirect costs attributable to this output were reassessed. Direct costs were consistent with the budgeted levels.
- Matters in the Civil and Administrative Tribunal (up $4.1 million) — the variation is due to the accrual of awards.

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703 Department of Justice response, received 19 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.17
704 Ibid, pp.15–17
costs in matters lodged with, but not finalised by, the Appeals Cost Board; and

- Enforcement of court orders and warrants (down $8.4 million) — the variation reflects lags in the implementation of road safety initiatives and reduced infringements detected by mobile safety cameras as a result of favourable changes in driver behaviour.

The Committee noted that a significant re-costing of outputs was undertaken for only one output group - Enforcing Correctional Orders.\textsuperscript{705} The Department advised the Committee the re-costing was required in order to progressively release funding from the Office of Correctional Services Commissioner to the operational units of CORE (Correctional Enterprises). The completion of several significant capital projects within this group also required a reallocation of depreciation and capital charge expense from other output groups that had been inappropriately attributed with this funding.\textsuperscript{706}

### 9.3 Performance information

The Committee noted that several of the Department’s outputs are delivered by other Government statutory bodies and portfolio groups (see Exhibit 9.4).

**Exhibit 9.4**

<table>
<thead>
<tr>
<th>Output group</th>
<th>Department and/or agencies responsible</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency prevention and response</td>
<td>Department of Justice</td>
<td>Statewide Emergency Services</td>
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<td></td>
<td>Metropolitan and Fire Services Board</td>
<td>Metropolitan Fire Emergency Services</td>
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<tr>
<td></td>
<td>Country Fire Authority</td>
<td>Outer Metropolitan, Rural and Regional Fire Services</td>
</tr>
<tr>
<td>Crime prevention</td>
<td>Victoria Police</td>
<td>Police presence in the community</td>
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<tr>
<td></td>
<td></td>
<td>Community safety programs</td>
</tr>
<tr>
<td>Incident, Emergency and Event</td>
<td>Victoria Police</td>
<td>Response readiness</td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td>Response to incidents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Event management</td>
</tr>
<tr>
<td>Crime identification and investigation</td>
<td>Victoria Police</td>
<td>Investigation of crimes against the person</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investigation of crimes against property</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investigation of illegal drug activity</td>
</tr>
</tbody>
</table>

\textsuperscript{705} Ibid, p.17  
\textsuperscript{706} Ibid
Where the Department was solely responsible for the delivery of outputs, information relating to performance indicators was included in the Department’s annual report. However, with the exception of Victoria Police, the Victorian Casino and Gaming Authority and the Office of the Victorian Privacy Commissioner, performance information relating to outputs delivered by the other portfolio agencies of the Department of Justice, including Victoria Legal Aid, the Equal Opportunity Commission and the Victorian Electoral Commission, was not included in the annual report to Parliament of either the Department or the portfolio agencies. In the 2002-03 Budget, over $370 million was allocated to the 12 outputs delivered by these agencies.\footnote{Budget Paper No. 3, 2002-03 Budget Estimates, pp.190–222}

The Committee’s earlier recommendation relating to the reporting of output financial information also applies to non-financial performance information.

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<table>
<thead>
<tr>
<th>Output group</th>
<th>Department and/or agencies responsible</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road safety</td>
<td>Victoria Police</td>
<td>Road safety strategies and awareness</td>
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<tr>
<td></td>
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<td>Road traffic law enforcement</td>
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<tr>
<td></td>
<td></td>
<td>Road traffic incident/collision</td>
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<tr>
<td></td>
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<td>management</td>
</tr>
<tr>
<td>Supporting the Justice System</td>
<td>Victoria Police</td>
<td>Providing justice services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Managing people in custody</td>
</tr>
<tr>
<td>Legal Support for Government</td>
<td>Department of Justice, Office of the Privacy Commissioner, Victorian Electoral Commission, Victorian Law Reform Commission</td>
<td>Legal Policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Legal Advice to Government</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Native Title Framework</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Privacy Regulation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>State Electoral Roll and Elections</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Law Reform</td>
</tr>
<tr>
<td>Dispensing Justice</td>
<td>Department of Justice, Supreme Court, County Court, Magistrates’ Court, Children’s Court, Victorian Civil and Administrative Tribunal, Victoria Legal Aid, Office of Public Prosecutions, Victorian Institute of Forensic Medicine</td>
<td>Alternative Dispute Resolution Services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Victims Support</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Matters in the Supreme Court</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Matters in the County Court</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Matters in the Magistrates’ Court</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Matters in the Children’s Court</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Matters in the Civil and Administrative Tribunal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Legal Aid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Public Prosecutions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Forensic Evidence</td>
</tr>
<tr>
<td>Achieving equal opportunity</td>
<td>Equal Opportunity Commission, Office of the Public Advocate</td>
<td>Discrimination Prevention and Redress</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Advocacy and Guardianship</td>
</tr>
</tbody>
</table>

Source: Department of Justice, 2002-03 Annual Report, p.80
As with the disclosure of output costs, the Committee considers that the non-disclosure of performance information relating to outputs weakens accountability. The Committee believes that the onus is on the Department of Justice under Directions from the Minister for Finance to report on output performance measures, particularly those included in Budget Papers and irrespective of whether the Department directly provides the output or the provision of outputs is carried out by another portfolio agency, community organisation or private sector provider.

Following a request by the Committee, the Department provided performance information that was not disclosed in either the Department’s annual report or portfolio agency annual reports in 2002-03 (see Exhibit 9.5).

**Exhibit 9.5**

**Selected Justice portfolio outputs**  
**Performance measures 2002-03**

<table>
<thead>
<tr>
<th>Responsible agency/output</th>
<th>Target 2002–03</th>
<th>Actual 2002–03</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Victorian Law Reform Commission — Law reform</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>References and community law reform projects</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Community law reform activities</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Projects meet internal quality standards</td>
<td>95%</td>
<td>95%</td>
</tr>
<tr>
<td>Agreed timelines, milestones or schedules met</td>
<td>95%</td>
<td>95%</td>
</tr>
<tr>
<td><em>Victorian Electoral Commission — State electoral roll and elections</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elections and by-elections and polls</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Municipal</td>
<td>53</td>
<td>59</td>
</tr>
<tr>
<td>Non-government</td>
<td>40</td>
<td>35</td>
</tr>
<tr>
<td>Elector enrolment changes</td>
<td>600,000</td>
<td>736,000</td>
</tr>
<tr>
<td>Training programs conducted for election officials</td>
<td>34</td>
<td>37</td>
</tr>
<tr>
<td>Election results contested in the Court</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td><em>Office of Public Prosecutions — Public prosecutions</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Matters prepared for proceedings and attendance at court ('000)</td>
<td>49.5</td>
<td>56.1</td>
</tr>
<tr>
<td>Client satisfaction with quality of preparation for and conduct of proceedings</td>
<td>95%</td>
<td>95%</td>
</tr>
<tr>
<td>Matters prepared within statutory time limits</td>
<td>95%</td>
<td>95%</td>
</tr>
<tr>
<td><em>Victorian Institute of Forensic Medicine — Forensic evidence</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bodies admitted</td>
<td>3000</td>
<td>3128</td>
</tr>
<tr>
<td>VIFM quality audit</td>
<td>95%</td>
<td>95%</td>
</tr>
<tr>
<td>Autopsies completed within 18 hours of being ordered</td>
<td>70%</td>
<td>78.5%</td>
</tr>
<tr>
<td>Post mortem reports issued within agreed period</td>
<td>70%</td>
<td>66.6%</td>
</tr>
<tr>
<td><em>Supreme Court — Matters in the Supreme Court</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Matters disposed</td>
<td>18,000–19,000</td>
<td>20,355</td>
</tr>
<tr>
<td>User survey rating registries, juries division or Court amenities</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Criminal cases disposed of within 12 months of commencement</td>
<td>80%</td>
<td>90%</td>
</tr>
<tr>
<td>Civil cases disposed of within 24 months of commencement</td>
<td>80%</td>
<td>80%</td>
</tr>
</tbody>
</table>
### County Court — Matters in the County Court

<table>
<thead>
<tr>
<th>Matters disposed</th>
<th>11,250</th>
<th>12,255</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents to user survey rating the registry service as good or very good</td>
<td>90%</td>
<td>96%</td>
</tr>
<tr>
<td>Criminal cases disposed of within 12 months of commencement</td>
<td>80%</td>
<td>87%</td>
</tr>
<tr>
<td>Civil cases disposed of within 12 months of commencement</td>
<td>50%</td>
<td>37%</td>
</tr>
</tbody>
</table>

### Magistrates’ Court — Matters in the Magistrates’ Court

<table>
<thead>
<tr>
<th>Matters disposed</th>
<th>219,000</th>
<th>234,266</th>
</tr>
</thead>
<tbody>
<tr>
<td>User survey rating of the registry service</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Matters finalised within target elapsed time benchmarks</td>
<td>96%</td>
<td>96%</td>
</tr>
</tbody>
</table>

### Children’s Court — Matters in the Children’s Court

<table>
<thead>
<tr>
<th>Matters disposed</th>
<th>12,000</th>
<th>14,715</th>
</tr>
</thead>
<tbody>
<tr>
<td>User survey rating of the registry service</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Matters finalised within target elapsed time benchmarks</td>
<td>96%</td>
<td>96%</td>
</tr>
</tbody>
</table>

### Coroner’s Court — Matters in the Coroner’s Court

<table>
<thead>
<tr>
<th>Matters disposed</th>
<th>3,100</th>
<th>3,042</th>
</tr>
</thead>
<tbody>
<tr>
<td>User survey rating of the registry service</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Matters finalised within target elapsed time benchmarks</td>
<td>90%</td>
<td>90%</td>
</tr>
</tbody>
</table>

### Victorian Civil and Administrative Tribunal — Matters in the Civil and Administrative Tribunal

<table>
<thead>
<tr>
<th>Matters finalised</th>
<th>92,500</th>
<th>88,803</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tribunal user satisfaction</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Matters finalised within target elapsed time benchmarks</td>
<td>90%</td>
<td>90%</td>
</tr>
</tbody>
</table>

### Victoria Legal Aid — Legal Aid

<table>
<thead>
<tr>
<th>New applications approved</th>
<th>25,000</th>
<th>27,592</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duty lawyer services</td>
<td>37,500</td>
<td>50,278</td>
</tr>
<tr>
<td>Legal advice</td>
<td>25,000</td>
<td>33,904</td>
</tr>
<tr>
<td>Telephone information services</td>
<td>42,500</td>
<td>46,089</td>
</tr>
<tr>
<td>Publications distributed</td>
<td>155,000</td>
<td>196,218</td>
</tr>
<tr>
<td>Applications processed:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>within 1 day</td>
<td>85%</td>
<td>85%</td>
</tr>
<tr>
<td>within 15 days</td>
<td>98%</td>
<td>87.8%</td>
</tr>
</tbody>
</table>

### Equal Opportunity Commission — Discrimination prevention and redress

<table>
<thead>
<tr>
<th>Complaint files finalised</th>
<th>1,150</th>
<th>1320</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public inquiries responded to</td>
<td>60,000</td>
<td>107,492</td>
</tr>
<tr>
<td>Persons who receive anti-discrimination training services</td>
<td>10,000</td>
<td>9,628</td>
</tr>
<tr>
<td>Customer satisfaction rating</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>Complaints determined within statutory timelines</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Conciliations completed to internal standards</td>
<td>90%</td>
<td>90%</td>
</tr>
</tbody>
</table>

### Office of the Public Advocate — Advocacy and guardianship

<table>
<thead>
<tr>
<th>Public information services provided</th>
<th>16,500</th>
<th>19,290</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volunteers supported and trained</td>
<td>710</td>
<td>891</td>
</tr>
<tr>
<td>Advocacy interventions and investigations undertaken</td>
<td>1,705</td>
<td>1,625</td>
</tr>
<tr>
<td>Guardianship services — total case load</td>
<td>&lt;870</td>
<td>944</td>
</tr>
<tr>
<td>User satisfaction rating</td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>Enquiries resolved within internal standards</td>
<td>95%</td>
<td>95%</td>
</tr>
</tbody>
</table>

Source: Department of Justice response, received 19 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.22—24
The Department advised the Committee of the reasons for major variances from targets for specific performance measures including:

- Public Prosecutions — higher than expected matters prepared for proceedings and attendance at court reflected the response to additional committals for trial from the Magistrates’ Court and more sitting days in the criminal jurisdictions of the Supreme and County Courts;

- Matters in the County Court — the reduction from 50 per cent to 37 per cent of civil cases disposed of within 12 months of commencement was due to a backlog of serious injury cases which tend to have lower early settlement rates, and are now at trial stage;

- Matters in the Children’s Court — the higher than expected number of matters disposed of in the Children’s Court reflected increased prosecutions associated with public transport blitzes conducted by the Department of Infrastructure and Victoria Police; and

- Equal Opportunity Commission — discrimination prevention and redress. An increasing number of enquiries continue to be made to the Equal Opportunity Commission’s website, with 107,492 public enquiries in 2002–03 as compared to a target of 60,000 calls. The targeted number of public inquiries responded to for 2003-04 has been increased from 60,000 to 80,000.

The Committee acknowledges that the Department of Justice has recognised the value of using different forms of benchmarking including external benchmarking wherever possible in the process of assessing efficiency and effectiveness and for setting performance improvement targets.

The Department advised the Committee that the most commonly used source of comparative data for assessing the efficiency and effectiveness of justice services is ‘averaged performance’ across state or national services using the annual statistics for the Administration of Law and Order available in the Council of Australian Governments (COAG) report on Government Services compiled by the Productivity Commission. Most of the key measures defined in the COAG
frameworks for Police, Courts, Correctional Services and Emergency Management are replicated where practical and relevant in the Department’s performance management system.\textsuperscript{710}

The Committee noted that the Department considered the report compiled by the Productivity Commission had severe limitations as an effective benchmarking tool for annual target-setting purposes, unless observed differences across jurisdictions explicitly recognise factors such as the nature of the demand for services, the policies and legislation affecting the services, and the additional resources available or alternative services which are not included in the report’s coverage.

The Committee is aware that the Productivity Commission’s report includes data that may, in some cases, not be strictly comparable.\textsuperscript{711} The Committee believes that there would be merit in examining the reasons why this is the case, such as definitional issues, small sample sizes and different counting rules. The Committee believes that where data is not strictly comparable, the Department should determine whether differences are likely to materially affect comparisons with other jurisdictions.

The Committee considers the use of performance measures based on national benchmarks provides an important insight into the effectiveness of Government programs in Victoria compared to other jurisdictions. The use of such measures can assist policy makers and service providers to determine whether further improvements are achievable, based on the experiences of other jurisdictions and the availability of resources.

The Committee encourages the Department to continue working with the Productivity Commission and other jurisdictions to further develop the quality of information included in the report.

The Department advised that performance targets for outputs associated with the criminal justice system, including crime investigation, prosecution and disposal of matters in the courts, and the enforcement of correctional orders, are more commonly set in the Department using internal system-based forecasting models in conjunction with Government initiated ‘price’ reviews.\textsuperscript{712}

\textsuperscript{710} Ibid
\textsuperscript{712} Department of Justice response, received 19 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.18
Where periodic benchmarking partnerships in the Justice portfolio service areas are not covered by the Productivity Commission’s framework, the Department advised that it uses a collective process to establish benchmark information that is part of the Department’s continuous improvement program and Business Excellence Self Assessment framework. The Department provided the example of Consumer Affairs Victoria using data from independently established collaborative benchmarking activities with comparable agencies in other state jurisdictions to establish ‘frontier practice’ (being best achievable performance with available technology) in its call centre operations.\(^{713}\)

The Committee is encouraged by the extensive range of internal and external benchmarking information that the Department uses to evaluate its effectiveness and efficiency.

The Department needs to continue to review and develop performance indicators that are based on national benchmarks. Where appropriate, high level benchmarks developed as part of the ongoing process of refining performance measurement should be included in Budget papers.

### 9.3.1 Victoria Police output performance

In 2002-03, the number of recorded criminal offences in Victoria declined by 5.5 per cent (see Exhibit 9.6a). When the number of offences is expressed as a rate per 100,000 people, recorded criminal offences declined by 6.8 per cent (see Exhibit 9.6b).\(^{714}\) Declines in most categories of offences have occurred since 1999-2000. The Committee also noted the improvement in the clearance rate for recorded offences, which increased overall by 3 percentage points to 41.0 per cent in 2002-03.\(^{715}\)

\(^{713}\) Ibid
\(^{714}\) Victoria Police, Crime Statistics 2002/03, December 2003, Table 2.3, p.20
\(^{715}\) Ibid
Exhibit 9.6

Victoria Police crime statistics 1999-2000 to 2002-03

The Committee noted that Victoria Police did not meet several of its performance measure targets relating to hours allocated to different activities in 2002-03.\textsuperscript{716} Variations of greater than 10 per cent were reported for a number of performance targets including...\textsuperscript{717}

\textsuperscript{716} Victoria Police, 2002-03 Annual Report, pp.8–16
\textsuperscript{717} Ibid
• total hours of police service (Community safety programs output) — 20.3 per cent less than target;

• total hours of investigation (Investigation of crimes against the person output) — 27.4 per cent less than target;

• total hours of investigation (Investigation of crimes against property output) — 31.7 per cent less than target;

• total hours of investigation (Investigation of illegal drug activity output) — 31.8 per cent less than target;

• total hours committed to road safety strategies and awareness programs (Road safety strategies and awareness output) — 125 per cent more than target.

The Department advised the Committee that Victoria Police’s initial estimates represented significant and overly ambitious increases on the previous year’s targets (see Exhibit 9.7).
The Committee noted that the total hours allocated to Victoria Police outputs increased by 18.4 per cent in 2002-03, with most of the increase allocated to patrol hours (28 per cent), assistance associated with police presence in the community (18 per cent) and the provision of justice services (14 per cent). Despite this increase, targets for hours allocated to different tasks were not met for six of the ten targets.\(^{718}\) It was not possible for the Committee to establish a correlation between crime statistics reducing and the increase/decrease in policing hours.

The Department advised the Committee that the process for forecasting police hours requires an estimation of the number of staff applied to activities within the output framework. Victoria Police indicated that this task was difficult in an environment where staff hours are influenced by

\(^{718}\) Ibid
leave and training and is further complicated by the need to estimate the impact of the additional 800 police recruited in recent years and the changing contribution to output activity over time.719

The Committee noted that hours-based performance measures were discontinued in the 2003-04 Budget and replaced with activity-based quantity measures such as the number of investigations and prosecutions.720 Victoria Police believes that the new outcome focused accountability and performance management framework will allow the community to better assess its effectiveness in the four areas of major concern: the crime rate; the road toll; perceptions of community safety; and customer satisfaction.721

The Committee noted that Victoria Police did not include in its annual report the cost of outputs and budgeted expenditure in its summary of performance measures.722 This information was provided by the Department after a request by the Committee and revealed that the cost of Victoria Police outputs in 2002-03 was $56.2 million (4.9 per cent) higher than budgeted, with most of the increase ($17.1 million) attributed to the police presence in the community output.723

The additional output cost for each output that included hours-based performance measures is also provided in Exhibit 9.7.

The Committee welcomes the additional resources being made available to Victoria Police to establish and maintain a visible police presence and to investigate criminal activity. The Committee recognises that while some of the hours-based performance targets may have been initially ambitious, it would expect that the new performance management framework will eventually result in a better matching of resources with areas of demand.

The Committee will closely monitor the performance of Victoria Police’s new performance measures in 2003-04 with a view to determining whether the new measures adequately reflect Victoria Police performance against its key corporate objectives.

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719 Ibid, p.6
721 Victoria Police, 2002-03 Annual Report, p.63
722 Ibid, pp.8–16
9.4 Major issues

The Committee identified a number of issues relating to the Department’s portfolios arising from the 2002-03 Budget.

9.4.1 Provision of legal services to Government

In July 2002, new arrangements for the delivery of legal services to Government commenced, with 33 private law firms selected to make up a panel of service providers.724 As part of the arrangements, panel firms are required to deliver pro bono legal services to disadvantaged people who would otherwise go unrepresented.725 The Department advised the Committee that each panel firm nominated a pro bono rate between 5 and 15 per cent of the fees generated under the panel contract, with an average rate of 10 per cent.726

The Committee noted that when the initiative was announced, a key outcome of the panel arrangements was an expected overall increase in the provision of pro bono legal services by law firms. This was to be achieved by law firms nominating a percentage of the fees they derive under the panel arrangements to be devoted to pro bono services.727

The legal profession has a long tradition of contributing services to the community at no cost or reduced cost.728 The Australian Bureau of Statistics (ABS) estimated that private solicitor and barrister practices undertook 2.3 million hours of pro bono work in 2001-02.729

The Committee noted that the estimated value of contracts with panel legal firms was around $105 million over three years to June 2005.730 The Department advised the Committee that reported actual expenditure by Departments through the panel arrangements, including expenditure on core government legal services provided through the Victorian

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723 Department of Justice response, received 19 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.15–16
724 Department of Justice, 2002-03 Annual Report, p.36
725 Ibid
726 Department of Justice response, received 19 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.43
727 Hon. R. Hulls, MP, Office of the Attorney-General, media release, Hulls announces successful tenders for legal services, 26 June 2002
729 Australian Bureau of Statistics 2003, Legal Practices, ABS Cat. No. 8667.0, p.25. The ABS noted that legal practices generally did not maintain accurate records of pro bono work, and therefore needed to estimate its value. For this reason, the estimate of pro bono work should be used with caution.
Government Solicitor, was $22.2 million in 2002-03, of which $14.9 million was spent through the 33 panel firms. 731 Expenditure was lower than anticipated due to a combination of factors: lower demand for services; more competitive rates; and the fact that legal services provided in 2002-03 under contracts and engagements with legal firms predated the panel arrangements. 732

The Committee noted that in 2002-03, the value of pro bono legal services generated under the panel contract was $1.5 million or around ten per cent of the legal services provided by private law firms. These services are required to be delivered during 2003-04. 733

The Department advised the Committee that panel firms must adhere to the Attorney-General’s pro bono guidelines for the provision of pro bono legal services to approved clients and that the services must be notified in advance to the Department. Under the panel contracts, firms are required to keep records, which may be audited, showing that the pro bono services pledged have been delivered. 734 As services are delivered in 2003-04, relevant recipient organisations will be included in client satisfaction surveys.

### 9.4.2 Road safety investments

The 2002–03 Budget allocated $3 million in 2002–03 and $3 million in 2003-04 to fit 25 new digital red light and speed detection cameras at intersections throughout Victoria and to upgrade 26 existing cameras. 735

The Department advised the Committee that the scope of the project had been expanded to include the installation of an additional 10 cameras at 30 intersections on a rotational basis. The budget allocation remained unchanged, with around $3.8 million spent in 2002-03. 736

The Committee noted the positive effect of the Government’s road safety initiatives, in 2002–03, including an 18 per cent fall in the number of

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731 Department of Justice response, received 15 January 2004, to the Committee’s follow-up questions
732 Ibid
733 Department of Justice response, received 19 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.45
734 Ibid
735 Budget Paper No.2, 2002-03 Budget Statement, pp.199–200
736 Department of Justice response, received 19 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.41
fatalities on Victorian roads and a reduction in the number of motorists issued with speeding infringements.

The Committee noted that the annual number of traffic infringement notices processed was published in the Department’s 2002-03 annual report, and the annual number of vehicles detected speeding was introduced as a performance measure as part of the 2003-04 budget. In relation to road fatalities, the Committee is aware that the Transport Accident Commission provides a daily update on Victorian road fatalities on its website. The Committee believes that there would be merit in the Department improving its reporting of initiatives to reduce the incidence of speeding, by including on the Department’s website both monthly or quarterly information on the number of speeding infringement notices issued.

There has been considerable controversy surrounding the reliability of speed cameras. In November 2003, Victoria Police responded to public uncertainty over the accuracy of some cameras by suspending the processing of fixed-camera speeding penalties to allow for the entire network to be tested.

The suspension of fines puts significant revenue at risk: revenue collected by the Traffic Camera Office in 2002-03 totalled $202.5 million.

The Department advised the Committee that the mobile speed cameras operated by Tenix Solutions are tested, sealed and operated as prescribed by the Road Safety Procedures Regulations 1998 and certified by Technisearch (RMIT) annually, or whenever the seal is broken. Cameras operating in tunnels are certified by Technisearch and tested by Victoria Police. They must be re-certified every two years or whenever a seal is broken. No tender has yet been issued for the maintenance of cameras on

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737 Australian Transport Safety Bureau, Road Fatalities Australia Monthly Bulletin, June 2003, p.2
739 Department of Justice, 2002-03 Annual Report, p.84
740 Budget Paper No.3, 2003-04 Budget Estimates, p.216
742 Hon A. Haermeyer, MP, Minister for Police and Emergency Services, media release, ‘Government backs suspension of processing of fixed camera speed penalties’, 12 November 2003
the Western Ring Road as the cameras are still under warranty. However, tender specifications are under development for release early in 2004.\footnote{Department of Justice response, received 19 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.43}

The Committee believes that accurate cameras will contribute to a higher level of public confidence in the Government’s road safety strategies.

In an effort to provide an incentive for cameras to be accurate, the original service agreement entered into by the previous government in 1998 with LMT Australia (a consortium between Lockheed Martin and Tenix Defence Systems) provided for performance bonuses to be paid to the firm. The bonus arrangements initially provided for at least 65 per cent of photographs to be of sufficient clarity and accuracy for prosecutions to be made. The percentage of prosecutable photographs was to rise to 75 per cent by 2002.

In January 2003, the original contract was renegotiated, with the percentage of prosecutable photographs rising to 78 per cent. The Department advised the Committee that between July 2002 and June 2003, the contractor received bonus payments totalling $630,817. No bonus payments were made in June 2003 because Tenix Solutions failed to achieve the minimum standard for a TCO service standard — the standard for delivery of mobile speed camera hours.\footnote{Department of Justice response, received 15 January 2004, to the Committee’s follow-up questions}

The Department advised the Committee that the contract provides that where a service standard is not met in a month, then bonuses in relation to the service to which the standard applies are not payable. The delivery of the mobile speed camera hours service standard, requires at least 95 per cent of mobile speed camera site hours in each month delivered by Tenix Solutions, to conform to the requirements of Victoria Police. Tenix achieved 94.81 per cent in June 2003 and although this was less than the service standard, no penalty was applicable because the margin of failure was less than 1 per cent.\footnote{Ibid}

The Committee acknowledges the purpose of the performance bonuses in providing an incentive for Tenix Solutions, as the company is now named, for maintaining a high level of accuracy and clarity in the photographs the speed cameras produce. However, given the concerns which have emerged in late 2003 about the accuracy of some cameras, the purpose of providing the performance bonuses warrants review. In
addition, the concerns about the accuracy of the photographs raises the question as to the adequacy or otherwise of the provisions for the regular monitoring of the accuracy of the cameras.

The Committee recommends that:

**Recommendation 68:** The Department of Justice and Victoria Police:

(a) arrange for an expert evaluation of the accuracy and frequency of testing needed for the operation of speed cameras in Victoria; and

(b) if cameras are found to be defective, the potential impact on bonuses paid in the past to the operator should be examined.

### 9.4.3 Private prison services agreements

Privately-operated prisons accommodate around 45 per cent of Victoria’s prisoners. In 2003-04, it is expected that contract payments to the owners of private prisons will be around $89.4 million.\(^{747}\)

The Committee noted that an interim review of the Prison Services Agreements for the two privately operated prisons, Port Phillip Prison and Fulham Correctional Centre, was completed in September 2002.\(^{748}\)

The Department advised the Committee that the 2002-03 review of the prison services agreements resulted in the following changes:\(^{749}\)

- a new service delivery outcome framework and revised performance benchmarks intended to enhance qualitative performance measurement and to introduce more holistic performance assessments of prisoner care;

- revised Prisoner Health Care Standards — developed by the Office of the Correctional Services Commissioner in

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747 Minister for Corrections’ response, received 23 July 2003, to the Committee’s follow-up questions, p.2
748 Department of Justice, 2002-03 Annual Report, p.52
749 Department of Justice response, received 19 December 2003, to the Committee’s 2002-03 Budget outcomes questionnaire, p.44
conjunction with the Department of Human Services — to clarify contractors’ obligations to prisoners;

• changes to the Prison Management Specifications including greater emphasis on prisoner care, rehabilitation, transition to release, and closer scrutiny and monitoring of appropriate staff training and roster levels;

• enhancement to the reporting requirements of the contractors; and

• statutory changes to the agreement to take into account, for example the Goods and Services Tax regime, this being the first appropriate ‘review event’ at which such changes could be effected.

The Committee noted that the revised performance standards and management specifications, developed by the Correctional Services Commissioner, have been implemented across the entire prison system.\textsuperscript{750} The Committee welcomes this initiative, which will potentially improve the performance of correctional facilities in Victoria in conjunction with enabling a better comparison of prison performance between publicly-owned and privately-owned correctional facilities.

The Department received a $10.3 million advance from the Treasurer to fund the increased costs associated with continuing service provision.\textsuperscript{751} The Department advised the Committee that the total costs for the two private prisons increased by approximately 5.3 per cent above previous funding. This was primarily due to the increased prisoner numbers at the prisons, increased prison staff, increased prisoner health costs (in particular pharmaceutical and nurses salaries), and increased insurance costs.\textsuperscript{752}

The Department advised the Committee that contract costs were ‘commercial-in-confidence’ and not available for disclosure, particularly as there are only two competitive private providers.\textsuperscript{753}

The Committee questions the merits of the Department’s view that, because there are only two competitive private providers, priority is given to non-disclosure of the cost of the contract in contrast to providing public accountability for the expenditure of taxpayer funds. The
Committee accepts that commercial information should be kept confidential prior to a contract being awarded, however, the situation changes upon the awarding of a tender and in this situation, there appears to be no reason why the tender price should not be made public.

The Committee reiterates the recommendations contained in its Thirty Fifth Report to the Parliament March 2000 – Commercial in confidence material and the public interest:

Recommendation 69:  
(a) Decision makers should recognise that commercial-in-confidence provisions reduce the scrutiny available to the Parliament and the community over Government decision making and use of public funds, and that their use as a tool in managing the Government’s relationship with service providers should be avoided;

(b) That when considering the withholding of information on the grounds of confidentiality, Government observe the general principle that information should be made public unless there is a justifiable reason not to do so; and

(c) Unless the Department of Justice can demonstrate to the Minister for Corrections that disclosure of the tender price and terms and conditions would interfere with the proper and efficient performance of Government to such an extent as to outweigh the benefits of public disclosure, the Department should insert a standard provision in the service contract for privately operated prisons requiring the contractor to keep and provide all necessary information to allow for parliamentary scrutiny of the contract.
9.4.4 Victoria Police resourcing

In 2002-03, Victoria Police reported revenue of around $1.179 million. This was an increase of 8.6 per cent compared to the previous year and 28.5 per cent higher than in 1998-99. Victoria Police reported an operating deficit of $28.7 million in 2002-03, an increase of $9.4 million by comparison with the deficit of $19.3 million in 2001–02.

Around 75 per cent of Victoria Police’s expenses are staff-related. In 2002-03, Victoria Police reported a net increase of 346 staff, including 34 police and 312 unsworn employees.

The Committee noted that expenses for Victoria Police increased from $1.105 billion in 2001-02 to $1.208 billion in 2002-03, with most of the increase due to a $76.6 million rise in employee benefits. The actual employee benefits expense in 2002-03 was 9.8 per cent higher than the budgeted expense of $815 million. The Committee noted that Victoria Police had received supplementary funding by way of a Treasurer’s Advance of $12.3 million to cover higher than anticipated WorkCover expenses ($10.6 million) and additional funds relating to the outcome of an enterprise agreement with police forensic officers. The WorkCover premium for Victoria Police in 2002-03 was $60.8 million.

The Department advised the Committee that the main reason for the increase in staff-related expenses was the higher rates of remuneration flowing from an enterprise agreement negotiated in November 2001, including the effect of higher rates on associated expenses such as superannuation; payroll tax and workers compensation (see Exhibit 9.8).
The Committee acknowledges that the enterprise agreement negotiated in November 2001 significantly added to Victoria Police’s expenses in 2002-03. The current agreement is due to expire in December 2004, but can be extended for a further 12 months — augmented by a 4 per cent salary increase.\(^{763}\) In the 2002-03 budget the Department was allocated an additional $58.5 million to implement the agreement, rising to $95.1 million in 2005-06.\(^{764}\)

The Committee believes that the budgeting framework for the Department of Justice and Victoria Police should be able to accurately model the financial implications of employing additional police and the costs of enterprise agreements thereby eliminating a need to restrict operations and provide supplementary funding when shortfalls eventuate.

**9.4.5 Victoria Police annual report errors**

The Committee received correspondence from the Minister for Police and Emergency Services advising that an error existed in appendix K of Victoria Police’s 2002-03 annual report.\(^{765}\)

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\(^{764}\) *Budget Paper No. 2, 2002-03 Budget Statement*, p.196

\(^{765}\) Correspondence, dated 17 December 2003, from the Minister for Police and Emergency Services and Minister for Corrections
The Minister advised Parliament that Appendix K (Budget Portfolio Outcomes) is prepared for the purpose of providing a comparative analysis between Victoria Police’s actual financial performance and the forecasted financial performance as published in Budget Paper No.3. In preparing Appendix K, the presentation of the 2002-03 actual figures was in a format used for the previous years’ annual reports, and not in accordance with the recently established guidelines of the Model Financial Report for Victorian Government Departments.766

The Minister stated that the incorrect presentation gave the impression that Victoria Police had received actual revenue of $1,099.569 million against a budget of $1,150.270 million, a difference of $50.701 million. The true outcome should show actual revenue of $1,179.432 million against a budget of $1,150.270 million, representing a net difference of $29.162 million. The increase was attributed to higher revenue during 2002-03 for such items as Counter Terrorism and WorkCover and approvals for transfers from the Asset Investment budget to the Outputs budget.767

The Committee’s analysis suggests that revenue of $29.162 million was excluded from the total operating revenue figure of $1,099.569 million originally included in Appendix K for 2002-03. In addition, revenue from the increase in assets of $79.567 million has since been removed and replaced with $2.080 million attributed to the increase in the asset revaluation reserve.

The Committee is concerned that errors of this magnitude are recorded in an annual report to Parliament. A cursory comparison of Appendix K with the Statement of Financial Performance (page 3 of the Victoria Police Financial Statements 2002-03) should have disclosed this discrepancy prior to the annual report being finalised.

The Committee recommends that:

**Recommendation 70:** Victoria Police adopt more stringent monitoring and editing arrangements to ensure the accuracy of information presented in its annual report to the Parliament.
9.4.6 Gambling regulation activities

In 2002-03, the State collected $826 million in taxation from around 27,500 electronic gaming machines located at clubs and hotels.\(^{768}\) The Committee was advised that compliance services (audits, inspections, operator procedures and rule approvals) for the regulation of gaming output were around 13 per cent higher than the target in 2002–03 due to a higher than planned number of audits conducted to ensure venues comply with new legislative requirements on ‘player information’ and ‘lighting’.\(^{769}\) Despite compliance services being higher than budgeted in 2002–03, the long term trend indicated that the result for 2002-03 was around 26 per cent lower than the result for 2001-02 (see Exhibit 9.9).

Exhibit 9.9

![Regulation of gambling compliance services 1998-99 to 2003-04](image)

Note: Output cost information was not available prior to 2000-01.
Source: Budget Paper No. 3, Budget Estimates various years

The Department informed the Committee that in undertaking such a comparison, compliance checks in 2001-02 were abnormally high reflecting monitoring of compliance with new regulations requiring the

\(^{768}\) Auditor-General Victoria 2003, Report of the Auditor-General on the Finances of the State of Victoria, 2002-03, November, p.47

\(^{769}\) Department of Justice, 2002-03 Annual Report, p.87

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installation of clocks on gaming machines. In reality, compliance checks were at similar levels in most years.\textsuperscript{770}

The Committee was advised that the audit activity program for 2002-03 included monitoring legislative measures introduced by Government which took effect during 2002-03, including:\textsuperscript{771}

\begin{itemize}
  \item game spin rate to be no greater than 2.14 seconds;
  \item prohibiting of autoplay functionality;
  \item prohibiting of large denomination note acceptors;
  \item paying winnings in excess of $2000 by cheque;
  \item limiting withdrawals and advances from cash facilities;
  \item introducing proper lighting requirements, and
  \item introducing player information requirements.
\end{itemize}

The Committee noted that during 2002-03, no prosecutions or disciplinary actions were undertaken with respect to the measures introduced in 2002-03, although 11 matters were still under further investigation as at 19 December 2003.\textsuperscript{772} The components of the compliance services activity in 2002-03 are shown in Exhibit 9.10.

The Committee welcomes the Department’s efforts to increase compliance monitoring activity beyond targets, particularly where regulatory changes have occurred.
Chapter 9: Department of Justice

Exhibit 9.10

Audit activity Regulation of Gaming 2002-03

<table>
<thead>
<tr>
<th>Audit activity</th>
<th>Actual 2002–03</th>
<th>Auditing Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance Audits</td>
<td>2,254</td>
<td>All venues are audited at least once per annum. A risk-based approach is applied to the specific matters to be audited in each venue.</td>
</tr>
<tr>
<td>Investigations</td>
<td>702</td>
<td>Complaints received and internal referrals for investigation.</td>
</tr>
<tr>
<td>Casino Operations Incident Reports</td>
<td>1244</td>
<td>24 hour/7 day monitoring of the Casino.</td>
</tr>
<tr>
<td>Analytical Reports</td>
<td>1478</td>
<td>Financial monitoring of all venues is undertaken to ensure compliance with the minimum 87% player return per annum.</td>
</tr>
<tr>
<td>Equipment approvals</td>
<td>687</td>
<td>Demand driven reflecting submissions for approval of equipment from manufacturers and gambling operators.</td>
</tr>
<tr>
<td>Lottery draws</td>
<td>730</td>
<td>All lotteries conducted by draw are supervised as required by legislation.</td>
</tr>
<tr>
<td>Gaming venues/software/ and EGMs configuration compliance</td>
<td>1476</td>
<td>All new game software installation is audited. Risk based auditing is applied to other areas.</td>
</tr>
<tr>
<td>All other</td>
<td>77</td>
<td>This includes Systems audits, Layout Change Approvals, Game Rule Approvals and Casino Internal Control Manual amendments.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,648</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Department of Justice response, received 19 December 2003, to the Committee’s 2002-03 Budget Outcomes Questionnaire, p.48
Report on the 2002-03 Budget Outcomes
Chapter 10: Department of Premier and Cabinet

Key Findings of the Committee:

10.1 The total Budget of the Department of Premier and Cabinet, adjusted for the machinery of government changes, was $586.1 million in 2002-03. Actual expenditure for the year was $446.6 million, $139.5 million or 23.8 per cent under Budget.

10.2 The operating result of the Department of Premier and Cabinet was a deficit of $47.3 million in 2002-03, 64.3 per cent below the 2002-03 budgeted operating result. This was due mainly to a change in the accounting for the transfer of trust fund assets under machinery of government changes.

10.3 The Department of Premier and Cabinet and its agencies met most of the performance targets for 2002-03.

10.4 Performance bonus payments totalling $414,134 were paid to executive officers of the Department of Premier and Cabinet.

10.5 The Department recorded a revenue of $16.4 million, the compensation payment from Crown Limited. This payment was in lieu of Crown constructing the Lyric Theatre, under an agreement associated with the casino operator licence.

10.6 The funding arrangements of the Office of the Ombudsman should be reviewed to align with the additional responsibilities that the Ombudsman has been given.

During 2002–03, the Department of Premier and Cabinet supported the portfolios of the Premier and the Minister for the Arts. As a result of the machinery of government changes in December 2002, certain outputs of the Department were transferred to the Department for Victorian Communities (see Exhibit 10.1).
10.1 Financial statement analysis

The Department’s financial statements include the financial information of:

- Museums Board of Victoria;
- Library Board of Victoria (State Library);
- Council of Trustees of the National Gallery of Victoria (National Gallery);
- Film Victoria; and
- Australian Centre for the Moving Image.\(^{773}\)

In 2002–03 the Department reported an operating deficit of $47.3 million, a decrease of 64.3 per cent from the adjusted Budget (see Exhibit 10.2). This was attributed mainly to the change in the accounting for the transfer of trust fund assets under machinery of government changes.
Exhibit 10.2

Department of Premier and Cabinet
Statement of Financial Performance 2002—03

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002-03 Adjusted</td>
<td>2002-03 Actual</td>
<td>Variance (b)</td>
</tr>
<tr>
<td></td>
<td>Budget (a) ($ million)</td>
<td>($ million)</td>
<td>($ million)</td>
</tr>
<tr>
<td>Revenue from ordinary activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output appropriations</td>
<td>321.3</td>
<td>343.3</td>
<td>22.0</td>
</tr>
<tr>
<td>Special appropriations</td>
<td>61.8</td>
<td>62.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Commonwealth grants</td>
<td>5.0</td>
<td>11.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Other revenue (c)</td>
<td>65.5</td>
<td>77.0</td>
<td>11.5</td>
</tr>
<tr>
<td>Total revenue</td>
<td>453.6</td>
<td>493.9</td>
<td>40.3</td>
</tr>
<tr>
<td>Expenses from ordinary activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>105.9</td>
<td>109.7</td>
<td>3.8</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>38.0</td>
<td>34.0</td>
<td>-4.0</td>
</tr>
<tr>
<td>Resources provided free of charge or for nominal consideration</td>
<td>143.6</td>
<td>-</td>
<td>-143.6</td>
</tr>
<tr>
<td>Grants and transfer payments</td>
<td>108.0</td>
<td>123.4</td>
<td>15.4</td>
</tr>
<tr>
<td>Capital asset charge</td>
<td>77.2</td>
<td>74.0</td>
<td>-3.2</td>
</tr>
<tr>
<td>Supplies and services</td>
<td>112.4</td>
<td>102.9</td>
<td>-9.5</td>
</tr>
<tr>
<td>Other expenses (d)</td>
<td>1.0</td>
<td>2.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Total expenses</td>
<td>586.1</td>
<td>446.6</td>
<td>-139.5</td>
</tr>
<tr>
<td>Result from ordinary activities</td>
<td>-132.5</td>
<td>-47.3</td>
<td>85.2</td>
</tr>
</tbody>
</table>

Notes: (a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003
(b) A negative variance indicates there is a Budget surplus for the particular line item
(c) Included in this item is revenue from the sale of goods and services
(d) Included in this item is borrowing cost
Sources: Budget Paper No.3, 2003–04 Budget Estimates, p.271; Department of Premier and Cabinet, 2002—03 Annual Report, p.147

The Department provided the following major reasons for the variations between the adjusted budget and the actual results for revenue and expenses:774

- output appropriations – the increase of $22 million was attributed mainly to additional funding for increased operating requirements across the major arts agencies, principally the Australian Centre for the Moving Image and the National Gallery at Federation Square;

774 Department of Premier and Cabinet response, received 6 February 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, pp.3-5
Commonwealth grants – the increase of $6.6 million is due mainly to additional funding received for the National Gallery redevelopment at St Kilda Road;

other revenue – the increase of $11.5 million was attributed mainly to the recognition as revenue ($16.4 million) from Crown Limited as compensation in lieu of the construction of the Lyric Theatre at Southbank. Further information is in section 10.4.1;

depreciation and amortisation – the decrease of $4 million was due mainly to unanticipated delays in building construction works, which impacted on the depreciation and amortisation charges;

resources provided free of charge or for nominal consideration – the decrease of $143.6 million was attributed to a change in the accounting for the transfer of trust fund assets under machinery of government changes. Pursuant to discussions between the Department and the Auditor-General’s Office the transfer was affected through the Statement of Financial Position;

grants and transfer payments – the increase of $15.4 million largely reflects the increase in output appropriations revenue; and

other expenses – the buildings of the State Library were revalued in 2002–03. The new valuations were lower than previously advised and the decrease was recognised in the Statement of Financial Performance as an expense.

At 30 June 2003, the Department controlled assets of $3,633.9 million, an increase of $155.7 million from Budget (see Exhibit 10.3). The increase was mainly due to an increase in asset values following a new valuation of the library collection at the State Library. The Department’s controlled liabilities were $62.9 million, an increase of $16.6 million or 35.8 per cent.
Exhibit 10.3

Department of Premier and Cabinet
Statement of Financial Position 2002—03

<table>
<thead>
<tr>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002-03</td>
<td>2002-03</td>
</tr>
<tr>
<td></td>
<td>Adjusted</td>
<td>Actual</td>
</tr>
<tr>
<td></td>
<td>Budget (a)</td>
<td>($ million)</td>
</tr>
</tbody>
</table>

### Current assets
- **Cash assets**
  - Adjusted: $36.5
  - Actual: $44.8
  - Variance: $8.3
- **Other financial assets**
  - Adjusted: $60.9
  - Actual: $40.9
  - Variance: $-20.0
- **Receivables**
  - Adjusted: $9.7
  - Actual: $15.7
  - Variance: $6.0
- **Inventories**
  - Adjusted: $1.7
  - Actual: $2.5
  - Variance: $0.8
- **Prepayments**
  - Adjusted: $0.7
  - Actual: $0.7
  - Variance: $0

**Total current assets**
- Adjusted: $109.5
- Actual: $104.6
- Variance: $-4.9

### Non-current assets
- **Receivables**
  - Adjusted: $55.5
  - Actual: $37.1
  - Variance: $-18.4
- **Other financial assets**
  - Adjusted: $20.1
  - Actual: $23.4
  - Variance: $3.3
- **Property, plant and equipment**
  - Adjusted: $916.5
  - Actual: $911.6
  - Variance: $-4.9
- **Other (c)**
  - Adjusted: $2,376.6
  - Actual: $2,557.2
  - Variance: $180.7

**Total non-current assets**
- Adjusted: $3,368.7
- Actual: $3,529.3
- Variance: $160.6

**Total assets**
- Adjusted: $3,478.2
- Actual: $3,633.9
- Variance: $155.7

### Current liabilities
- **Payables**
  - Adjusted: $16.2
  - Actual: $20.0
  - Variance: $3.8
- **Interest bearing liabilities**
  - Adjusted: $0.4
  - Actual: $0.1
  - Variance: $-0.3
- **Provisions**
  - Adjusted: $9.6
  - Actual: $9.1
  - Variance: $-0.5
- **Other**
  - Adjusted: $10.4
  - Actual: $15.3
  - Variance: $4.9

**Total current liabilities**
- Adjusted: $36.6
- Actual: $44.5
- Variance: $7.9

### Non-current liabilities
- **Interest bearing liabilities**
  - Adjusted: $9.7
  - Actual: $9.5
  - Variance: $-0.2

**Total non-current liabilities**
- Adjusted: $9.7
- Actual: $18.4
- Variance: $8.7

**Total liabilities**
- Adjusted: $46.3
- Actual: $62.9
- Variance: $16.6

**Net assets**
- Adjusted: $3,431.9
- Actual: $3,571.0
- Variance: $139.1

Notes:
(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003
(b) A negative variance indicates the actual result for the particular line item was below the Adjusted Budget
(c) Mainly represents cultural and heritage assets. Also included in this item was intangible assets (adjusted Budget: $100,000; actual: $nil)


The Department advised that the major reasons for the variations between the adjusted Budget and the actual results for assets and liabilities were:775

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775 Ibid, pp.6-7
• cash assets (current) – the increase of $8.3 million was due mainly to the higher level of deposits held by Film Victoria for distribution towards film projects;

• other financial assets (current) – the decrease of $20 million was attributed to a drawdown by the National Gallery on its investments;

• receivables (current) – the increase of $6 million was represented mainly by compensation money of $5.7 million due from Crown Limited in lieu of the construction of the Lyric Theatre. Further information is in section 10.4.1;

• receivables (non-current) – the net decrease of $18.4 million was attributed to:
  - compensation money of $9 million to be received after 30 June 2004 from Crown Limited as compensation in lieu of the construction of the Lyric Theatre. Further information is in section 10.4.1; and
  - a difference in the State Administration Unit inter-entity balance which was essentially a timing matter. The Department was requested to provide further information about this matter but no response was received by the time this report was finalised. The Committee intends to follow up this issue in its review of the 2004–05 Budget Estimates;

• other financial assets (non-current) – the increase of $3.3 million was attributed to a higher than expected level of investments held by the National Gallery and Film Victoria;

• other assets (non-current) – the increase of $180.7 million was attributed mainly to an increase in asset values as a result of the revaluation of the library collection at the State Library ($150 million);

• payables (current) – the increase of $3.8 million was attributed to higher than expected level of grants to be paid to grants recipients by Arts Victoria. The Department was requested to provide further information about this matter but no response was received by the time this report was finalised. The
Committee intends to follow up this issue in its review of the 2004–05 Budget Estimates;

- other liabilities (current) – the increase of $4.9 million was due to higher than expected unexpended grants of the State Library. The Department was requested to provide further information about this matter but no response was received by the time this report was finalised. The Committee intends to follow up this issue in its review of the 2004–05 Budget Estimates; and

- interest bearing liabilities (non-current) – this was attributed to a loan given to the National Gallery. The Department was requested to provide further information about this matter but no response was received by the time this report was finalised. The Committee intends to follow up this issue in its review of the 2004–05 Budget Estimates.

10.1.1 Administered items statement

The Department reported an administered gain of $200,000 in 2002-03 (see Exhibit 10.4).
Report on the 2002-03 Budget Outcomes

Exhibit 10.4

Department of Premier and Cabinet
Administered Items Statement 2002—03

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2 (2002-03 Adjusted Budget (a) ($ million))</th>
<th>Column 2-1 (2002-03 Actual ($ million))</th>
<th>Variance ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administered revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of goods and services</td>
<td>1.6</td>
<td>1.7</td>
<td></td>
<td>0.1</td>
</tr>
<tr>
<td>Other</td>
<td>0.3</td>
<td>4.4</td>
<td></td>
<td>4.1</td>
</tr>
<tr>
<td>Total administered revenue</td>
<td>1.9</td>
<td>6.1</td>
<td></td>
<td>4.2</td>
</tr>
<tr>
<td>Administered expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies and services</td>
<td>-</td>
<td>0.6</td>
<td></td>
<td>0.6</td>
</tr>
<tr>
<td>Payments into the Consolidated Fund</td>
<td>1.9</td>
<td>5.3</td>
<td></td>
<td>3.4</td>
</tr>
<tr>
<td>Total administered expenses</td>
<td>1.9</td>
<td>5.9</td>
<td></td>
<td>4.0</td>
</tr>
<tr>
<td>Revenue less expenses</td>
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<tr>
<td>Administered assets</td>
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<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>-19.8</td>
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<td>Other financial assets</td>
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<td>28.8</td>
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<td>Administered liabilities</td>
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<tr>
<td>Payables</td>
<td>-</td>
<td>28.5</td>
<td></td>
<td>28.5</td>
</tr>
<tr>
<td>Total administered liabilities</td>
<td>-</td>
<td>28.5</td>
<td></td>
<td>28.5</td>
</tr>
</tbody>
</table>

Notes: (a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003

Sources: Budget Paper No.3, 2003—04 Budget Estimates, p.274; Department of Premier and Cabinet, 2002—03 Annual Report, p.150

The Department advised that the major reasons for the variations between the adjusted Budget and the actual results for administered items were:

- other revenue – the increase of $4.1 million was represented by grants of $3 million that were repaid to Arts Victoria; and $1 million contributed towards an Arts Victoria project. The Department was requested to provide further information about this matter but no response was received by the time this report was finalised. The Committee intends to follow up this issue in its review of the 2004–05 Budget Estimates;

776 Ibid, p.7-8
• payments into the Consolidated Fund – the increase of $3.4 million was represented by a payment of $3 million into the Consolidated Fund from grants repaid to Arts Victoria;

• receivables/payables – the Department advised that a $19.7 million Public Account advance was recorded as a Receivable in the adjusted Budget, and as a Payable in the actual results. The Department further explained that when combining receivables and payables, there is a variance of $8.9 million, which principally represents an unbudgeted Public Account advance to fund the loan to the National Gallery. The Department was requested to provide further information about this matter but no response was received by the time this report was finalised. The Committee intends to follow up this issue in its review of the 2004–05 Budget Estimates; and

• other financial assets – the increase of $8.8 million represents the loan repayable by the National Gallery. The Department was requested to provide further information about this matter but no response was received by the time this report was finalised. The Committee intends to follow up this issue in its review of the 2004–05 Budget Estimates.

10.1.2 Performance bonus

The Committee requested information on the amount of performance bonus payments made in 2002–03. Total bonuses of $414,134 were paid by the Department to executive officers. The Department advised that bonuses paid were: 70.8 per cent at the EO3 classification; 100 per cent at the EO2 classification; and 25 per cent at the EO1 classification.

The Committee is surprised that all executive officers at the EO2 classification were paid a performance bonus given the Government’s policy provides for bonuses to be paid only where performance is exceptional or substantially above the performance criteria for an executive position.

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777 Ibid, p.10
778 Ibid
779 Executive Employment Handbook, p.2
10.1.3 Trust accounts

The Department advised the Committee that it controlled or administered nine trust accounts, with a total balance of $19 million at 30 June 2003.\(^{780}\) The largest trust account was the Yarra Precinct Arts Integration Project Trust ($16.4 million) which was established to hold external funds raised for the Yarra Precinct projects.\(^{781}\) Further information on the Yarra Precinct Arts Integration Project is in section 10.4.1.

The Committee noted that details of trust account activities were not disclosed in the annual report of the Department. In his Report on parliamentary control and management of appropriations, the Auditor-General called for greater transparency and accountability of trust account activities at the department and whole of government level.\(^{782}\)

The Committee recommends that:

**Recommendation 71:** The annual report of the Department of Premier and Cabinet include disclosures of all:

(a) new departmental trust accounts and their purposes;

(b) departmental trust accounts that were closed during the year; and

(c) transactions and balances of departmental trust accounts.

The relevance and appropriateness of trust accounts was also raised by the Auditor-General. The Auditor-General’s review identified instances where trust accounts established under the previous cash appropriation framework may be adequately managed within the current framework.\(^{783}\)

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780 Department of Premier and Cabinet response, received 6 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.21

781 Ibid

782 Victorian Auditor-General’s Office, Report on Parliamentary control and management of appropriations, April 2003, p.77

783 Ibid, p.79
The Committee recommends that:

**Recommendation 72:** The Department of Premier and Cabinet conduct regular assessments of the operations of all departmental trust accounts to ensure they remain relevant and appropriate in the context of the current financial management and accountability framework.

### 10.2 Output group expenditure analysis

Taking into account machinery of government changes, the estimated funding for 2002–03, excluding outputs transferred to the Department for Victorian Communities, was $389.9 million. Actual expenditure in 2002–03 was $384.1 million, around 1.5 per cent lower than the adjusted Budget.

**Exhibit 10.5**

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03 Adjusted Budget (a)</td>
<td>2002-03 Actual</td>
<td>Variance (b)</td>
<td></td>
</tr>
<tr>
<td>($ million)</td>
<td>($ million)</td>
<td>($ million)</td>
<td></td>
</tr>
<tr>
<td><strong>Strategic policy advice and projects</strong></td>
<td>39.0</td>
<td>32.5</td>
<td>-6.5</td>
</tr>
<tr>
<td><strong>Community engagement and government information (c)</strong></td>
<td>24.4</td>
<td>20.6</td>
<td>-3.8</td>
</tr>
<tr>
<td><strong>Public sector management and governance</strong></td>
<td>15.6</td>
<td>17.9</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Arts and cultural development (d)</strong></td>
<td>310.9</td>
<td>313.1</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>389.9</td>
<td>384.1</td>
<td>-5.8</td>
</tr>
</tbody>
</table>

**Notes:**
- (a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003.
- (b) A negative variance indicates there is a Budget surplus for the particular line item.
- (c) The actual and Budget figures includes the financial information for Information Victoria for the period July 2002 to December 2002. Information Victoria was transferred to the Department for Victorian Communities under machinery of government changes.
- (d) The Budget and actual figures includes the financial information for the Public Record Office Victoria for the period July 2002 to December 2002. The PROV was transferred to the Department for Victorian Communities under machinery of government changes.

**Source:** Department of Premier and Cabinet, 2002—03 Annual Report, pp.138-146
The Department advised that the major reasons for the variation between the actual and budgeted expenditure in 2002–03 were:

- strategic policy advice and projects – the variation in output costs relates to:
  - additional enterprise bargaining agreement (EBA) supplementation and the redistribution of overhead and indirect costs as a result of machinery of government changes; and
  - the transfer of the agency, Victorian Relief Committee from the Department. The Department was requested to provide further information about this matter but no response was received by the time this report was finalised. The Committee intends to follow up this issue in its review of the 2004–05 Budget Estimates;

- community engagement and government information – largely relates to the transfer of Information Victoria to the Department for Victorian Communities;

- public sector management and governance – mainly relates to EBA supplementation, additional funding to the Office of the Governor and the Office of the Ombudsman, and the redistribution of overhead and indirect costs as a result of machinery of government changes; and

- arts and cultural development – relates to additional funding provided to the arts agencies for unforeseen costs. Treasurer’s advances were provided to:
  - Museum Victoria which received sustainability funding of $1.6 million to cover the impact of low attendances and reduced entry fees. The Department advised the additional funding will put the museum on a sustainable funding level and assist with broadening access for all three campuses;
  - Australian Centre for the Moving Image (ACMI) which received funding of $3.4 million to redress revenue shortfalls, additional project management and temporary

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784 Department of Premier and Cabinet response, received 6 February 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, pp.12-13
accommodation costs associated with delays in the completion of its facilities at Federation Square; and a further $1.7 million to sustain activities; and

- National Gallery of Victoria (NGV) which received $10.2 million to meet the additional operating costs of a multi-site, expanded operation; and the expenses of NGV at Federation Square. It also received $1.8 million to meet additional information technology infrastructure costs at the St Kilda Road redevelopment and operating costs at Federation Square.

10.3 Performance information

The Committee noted that the Department and its agencies had largely achieved the performance targets for most of the performance measures for 2002–03.

The arts agencies had largely met the performance targets which were reported in the Department’s annual report for 2002–03, with the exception of key arts agencies such as:786

- Museum Victoria - performance measures for visitor numbers, and customer satisfaction were not met; and

- State Library - performance measure on customer satisfaction was not met.

The Committee noted that the Department’s annual report did not provide explanations for performance targets that were not met by the arts agencies.787 The Committee recommends that:

Recommendation 73: The Department of Premier and Cabinet include in its annual report explanations for performance targets that were not met for the arts agencies.

786 Department of Premier and Cabinet, 2002–03 Annual Report, p.144
787 Ibid, pp.67-70
Some of the more notable variances in performance targets to actual results are illustrated in Exhibit 10.6.

Exhibit 10.6

Department of Premier and Cabinet
Selected performance measures 2002—03

<table>
<thead>
<tr>
<th>Performance measure</th>
<th>Unit of measure</th>
<th>2002-03 Target</th>
<th>2002-03 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic policy advice and projects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of briefs</td>
<td>Number</td>
<td>2,000</td>
<td>5,161</td>
</tr>
<tr>
<td>Minimum student numbers for the Masters of Public Administration program from Victoria</td>
<td>Number</td>
<td>58</td>
<td>39</td>
</tr>
<tr>
<td>Minimum student numbers for the Executive Fellows program from Victoria</td>
<td>Number</td>
<td>30</td>
<td>0</td>
</tr>
<tr>
<td>Arts and cultural development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arts development applications processed for Ministerial consideration</td>
<td>Days</td>
<td>60</td>
<td>31</td>
</tr>
<tr>
<td>All other applications processed for Ministerial consideration</td>
<td>Days</td>
<td>40</td>
<td>16</td>
</tr>
<tr>
<td>Visitors/users to all agencies</td>
<td>Number</td>
<td>8,545,000</td>
<td>7,984,000</td>
</tr>
<tr>
<td>Visitors to the ACMI at Federation Square</td>
<td>Number</td>
<td>800,000</td>
<td>612,000</td>
</tr>
</tbody>
</table>

Source: Department of Premier and Cabinet, 2002—03 Annual Report, pp.138-144

The Department advised the Committee of the following reasons for the variations to the above performance measures:788

- number of briefs – the increase in the number of briefs above target was due to a significant number of additional briefs requested in 2002–03 in conjunction with machinery of government changes;

- minimum student numbers for the Masters program and the Executive Fellows program – the numbers were below target due to the timing of the commencement of the programs and because some places on the program were reallocated to other jurisdictions;

- arts development applications and other applications processed for ministerial consideration – efficiencies have been identified that have resulted in significant improvement in service delivery. The Committee welcomes the improvement in the timeliness of service delivery;

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788 Department of Premier and Cabinet response, received 6 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.14
visitors/users to all agencies – the variance was largely a result of:

- reduced access at the State Library following the discovery of asbestos and other issues relating to the redevelopment of the Library;
- below target attendances at Museum Victoria; and
- the target included visitor numbers to the Public Record Office Victoria which was transferred to the Department for Victorian Communities in December 2002;

visitors to the ACMI at Federation Square – the variance reflects the methodology for reporting attendance numbers in the first quarter of operations where the ACMI only reported on visitors to the downstairs screen gallery and not to all screening and exhibition spaces. This was subsequently revised and data collected on total visitor numbers in 2002–03 was 799,900.

10.3.1 Benchmarking of performance measures

The Department advised that benchmarking of performance targets was not undertaken in 2002–03. The Committee encourages the Department to pursue opportunities to include relevant performance measures that are based on national benchmarks.

10.4 Major issues

10.4.1 Yarra Precinct Arts Integration Project

The 2002–03 Budget allocated $61 million over five years for the development of the Yarra Precinct Arts Integration Project which will include a 1000 seat recital hall, a small theatre and a pedestrian connection between the arts precinct and Southbank. This project was to be funded from:

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789 Ibid, p.31
790 Ibid, p.32
791 Ibid, p.13
792 Budget Paper No.2, 2002–03 Budget Statement, p.209
793 Hon. S. Bracks, MP, Premier, media release, ‘$61 million development for Southbank Arts Precinct’, 20 February 2002
• $36 million from the Government;
• $18 million from Crown Limited, in lieu of the building of the Lyric Theatre; and
• the balance to be funded from private and philanthropic sources.

As outlined in the 2002–03 Budget Estimates report, the Committee was advised that Crown Limited (Crown) was to contribute $18 million towards the funding of the project. The Committee noted that the $18 million funding from Crown represents a compensation payment to the State in lieu of Crown’s decision not to proceed with the construction of the Lyric Theatre under an agreement associated with the casino operator licence granted by the State to Crown. The arrangement reached between the State and Crown provided that Crown would pay the $18 million in six instalments of $3 million per annum, commencing in June 2002.

The Department advised that it recognised as revenue of $16.4 million, the compensation payment from Crown. The Department also advised that although this compensation payment is payable in instalments over several years, the Auditor-General had determined that the correct accounting was to record the full amount of the revenue in 2002–03, and a receivable for the outstanding balance.

The Department was requested to provide further information on the funding arrangement for this project but no response was received by the time this report was finalised. The Committee intends to follow up this issue in its review of the 2004–05 Budget Estimates.

A trust account – Yarra Precinct Arts Integration Project Trust – was established to hold all external funding raised for the project, including the compensation payments from Crown. As at 30 June 2003, the balance in this account was $16.364 million.

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796 Ibid
797 Ibid
798 Ibid
799 Ibid, p.21-22
800 Ibid, p.22
The Department recorded the following accounting entries for the recognition of the compensation payments from Crown in 2002–03:\footnote{801}{Ibid, pp.3 and 6}

- revenue of $16.4 million, in the Statement of Financial Performance in the category – other revenue (see Exhibit 10.2);
- receivables totalling $14.7 million, in the Statement of Financial Position (see Exhibit 10.3) in the following categories:
  - current receivables of $5.7 million; and

The Budget allocated for this project in 2002–03 was $2.5 million.\footnote{802}{Budget Paper No.2, 2002–03 Budget Statement, p.209} The Department advised that activities undertaken in 2002–03 were:\footnote{803}{Ibid, p.31}

- site analysis and siting option studies and feasibility studies;
- expressions of interest and requests for tender for architectural services, acousticians and theatre planners, quantity surveying services and engineering services, and structural engineering services; and
- preliminary project program development and budget breakdown.

The actual expenditure on this project in 2002–03 was $202,000 or 92 per cent below Budget.\footnote{804}{Department of Premier and Cabinet response, received 6 February 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.18} The Department advised that the project scoping and planning works were still underway at the end of 2002–03.\footnote{805}{Ibid, p.19} Given the significance of the project and its five year timeframe, it is important that its construction is undertaken in a timely manner.
The Committee recommends that:

**Recommendation 74:** The Department of Premier and Cabinet actively monitor progress of the Yarra Precinct Arts Integration Project against established timeframes.

### 10.4.2 Funding of the Office of the Ombudsman

The Office of the Ombudsman is an output group within the Department of Premier and Cabinet and received appropriation funding from the Government. In 2002–03 the Ombudsman recorded an operating loss of $74,175 and a net liability position of $741,757. Over the past four years the Ombudsman has been in a net liability position (see Exhibit 10.8).

**Exhibit 10.8**

<table>
<thead>
<tr>
<th></th>
<th>2002-03 Actual ($ million)</th>
<th>2001-02 Actual ($ million)</th>
<th>2000-01 Actual ($ million)</th>
<th>1999-00 Actual ($ million)</th>
<th>1998–99 Actual ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3.64</td>
<td>3.29</td>
<td>2.64</td>
<td>2.90</td>
<td>2.86</td>
</tr>
<tr>
<td>Expenses</td>
<td>3.71</td>
<td>3.26</td>
<td>2.74</td>
<td>2.94</td>
<td>2.78</td>
</tr>
<tr>
<td>Net result</td>
<td>-0.07</td>
<td>0.03</td>
<td>-0.1</td>
<td>-0.04</td>
<td>0.08</td>
</tr>
<tr>
<td>Total assets</td>
<td>0.32</td>
<td>0.37</td>
<td>0.22</td>
<td>0.25</td>
<td>0.32</td>
</tr>
<tr>
<td>Total liabilities (a)</td>
<td>1.06</td>
<td>1.03</td>
<td>0.92</td>
<td>0.86</td>
<td>0.89</td>
</tr>
<tr>
<td>Net liabilities</td>
<td>-0.74</td>
<td>-0.66</td>
<td>-0.7</td>
<td>-0.61</td>
<td>-0.57</td>
</tr>
</tbody>
</table>

Note: (a) Liabilities largely consisted of employee entitlements


Given the significant additional responsibilities that the Ombudsman has taken on with the introduction of the *Whistleblowers Protection Act* 2001 in January 2002, and the introduction of the *Transport (Miscellaneous Amendments) Act* 2003 in May 2003 which empowered the Ombudsman to investigate complaints regarding the actions of officers employed by private transport companies in exercising statutory duties in the detection of offences, the Committee is concerned that the Ombudsman may not be able to satisfactorily discharge his statutory responsibilities under existing funding arrangements.

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807 Ibid, pp.13-14 and 97
The Committee recommends that:

**Recommendation 75:** The Department of Premier and Cabinet review the adequacy of funding provided to the Office of the Ombudsman, in the context of its additional responsibilities.

### 10.4.3 Victorian Arts Centre Trust — annual report error

The Committee wrote to the Minister for the Arts requesting an explanation for the errors contained in the annual report of the Victorian Arts Centre Trust for 2002–03.

The Committee was advised by the Minister that the errors were in *Note 4, Expenses from ordinary activities* of the audited financial report of the Trust which was tabled in the Parliament. The Minister advised that the error was made when an incorrect page for Note 4 was exchanged between the different Arts Centre work areas responsible for production of the Trust’s annual report.808

The Minister further advised that the errors did not affect the overall total for Note 4 of $43.062 million. The correct version of Note 4 which was provided to the Committee is shown in Exhibit 10.9.

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808 Correspondence, received 4 March 2004, from the Minister for the Arts
### Exhibit 10.9

**Victorian Arts Centre Trust**

**Corrected Note 4: Expenses from ordinary activities**

<table>
<thead>
<tr>
<th>Category</th>
<th>2002-03 ($’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Programming</strong></td>
<td></td>
</tr>
<tr>
<td>- attractions exhibitions program</td>
<td>704</td>
</tr>
<tr>
<td>- events performance programs</td>
<td>2 398</td>
</tr>
<tr>
<td>- presenter services programming</td>
<td>2 749</td>
</tr>
<tr>
<td></td>
<td><strong>5 851</strong></td>
</tr>
<tr>
<td><strong>Presenter relations</strong></td>
<td></td>
</tr>
<tr>
<td>- presenter services management</td>
<td>443</td>
</tr>
<tr>
<td>- ticketing services</td>
<td>286</td>
</tr>
<tr>
<td>- event marketing services</td>
<td>913</td>
</tr>
<tr>
<td>- production services</td>
<td>4 635</td>
</tr>
<tr>
<td></td>
<td><strong>6 277</strong></td>
</tr>
<tr>
<td><strong>Venture business development</strong></td>
<td>682</td>
</tr>
<tr>
<td><strong>Corporate promotion</strong></td>
<td>1 695</td>
</tr>
<tr>
<td><strong>Supporter development</strong></td>
<td></td>
</tr>
<tr>
<td>- loyalty programs</td>
<td>655</td>
</tr>
<tr>
<td>- donations and sponsorship</td>
<td>1 516</td>
</tr>
<tr>
<td></td>
<td><strong>2 171</strong></td>
</tr>
<tr>
<td><strong>Visitor services</strong></td>
<td></td>
</tr>
<tr>
<td>- staff services</td>
<td>2 411</td>
</tr>
<tr>
<td>- car park</td>
<td>870</td>
</tr>
<tr>
<td>- catering</td>
<td>245</td>
</tr>
<tr>
<td>- retailing</td>
<td>784</td>
</tr>
<tr>
<td>- box office</td>
<td>608</td>
</tr>
<tr>
<td></td>
<td><strong>4 918</strong></td>
</tr>
<tr>
<td><strong>Site, facilities, collections</strong></td>
<td></td>
</tr>
<tr>
<td>- facilities presentation</td>
<td>2 653</td>
</tr>
<tr>
<td>- facilities maintenance</td>
<td>10 225</td>
</tr>
<tr>
<td>- facilities development</td>
<td>2 287</td>
</tr>
<tr>
<td>- cultural collections</td>
<td>626</td>
</tr>
<tr>
<td></td>
<td><strong>15 791</strong></td>
</tr>
<tr>
<td><strong>Corporate</strong></td>
<td></td>
</tr>
<tr>
<td>- executive services</td>
<td>1 583</td>
</tr>
<tr>
<td>- organisational development services</td>
<td>745</td>
</tr>
<tr>
<td>- finance services</td>
<td>644</td>
</tr>
<tr>
<td>- information services</td>
<td>948</td>
</tr>
<tr>
<td>- safety and security services</td>
<td>1 757</td>
</tr>
<tr>
<td></td>
<td><strong>5 677</strong></td>
</tr>
<tr>
<td><strong>Total expenses from ordinary activities</strong></td>
<td><strong>43 062</strong></td>
</tr>
</tbody>
</table>

Source: Correspondence received 4 March 2004 from the Minister for the Arts
The Minister also advised that the report of the Auditor-General dated 2 October 2003, on the Trust’s financial report refers to the correct version of Note 4, and that no further audit statement needs to be issued. The Committee was informed that Arts Victoria had been instructed to advise the arts agencies to exercise greater care in the preparation of their annual reports.
Chapter 11: Department of Primary Industries

Key Findings of the Committee:

11.1 The total Budget for the Department of Primary Industries, adjusted for the machinery of government changes, was $145.4 million in 2002-03. Actual expenditure for the year was $186 million, $40.6 million or 28 per cent over Budget.

11.2 The actual operating surplus of the Department of Primary Industries for 2002-03 was $30.7 million or 52 per cent below the estimated operating surplus of $72.6 million. Changes in the accounting treatment for resources received and provided free of charge and the impact of drought assistance grant payments contributed to the variation in the operating result of the Department.

11.3 In 2002-03, the Department of Primary Industries received additional funding of $117.5 million to deliver its outputs, bringing its total funding allocation to $262.9 million. A Treasurer’s Advance of $72.2 million to primarily meet additional drought assistance and recovery costs, formed a significant component of the additional funding allocation.

11.4 At 30 June 2003, $58.5 million or 22.3 per cent of the Department’s funding appropriation authority remained unspent due to the affects of drought and bushfires which resulted in delays in the implementation of capital projects and the reprioritisation of a number of projects to 2003-04. As a consequence, expenditure on asset investment projects was 65 per cent below the allocated Budget for 2002-03.

11.5 The Department of Primary Industries achieved or surpassed most of its published performance measures and targets for 2002-03.
Key Findings of the Committee (continued):

11.6 Benchmarking is not sufficiently utilised by the Department of Primary Industries in developing performance measures and targets. Scope exists for improvements in performance disclosures in the annual report of the Department.

11.7 There was limited information in the annual report of the Department of Primary Industries on the progress of key initiatives and/or the key outcomes from the implementation of major asset and output initiatives.

The Department of Primary Industries was established on 5 December 2003, following the transfer of the agriculture, fisheries and minerals and petroleum functions from the former Department of Natural Resources and Environment.

The Department encompasses the ministerial portfolios of agriculture and resources.

11.1 Analysis of financial statement

The total Budget for the Department of Primary Industries, adjusted for the machinery of government changes, was $145.4 million in 2002-03. Actual expenditure for the year was $186 million, $40.6 million or 28 per cent over Budget.\textsuperscript{809}

In 2002-03, the Department estimated an operating surplus of $63.8 million which included revenue of $72.6 million representing resources received free of charge from the former Department of Natural Resources, following the machinery of government changes.\textsuperscript{810} The actual operating surplus of the Department for 2002-03 was $30.7 million\textsuperscript{811} or 52 per cent below Budget mainly due to the following:

- resources received free of charge under the machinery of government changes were not recognised as revenue during the year, but directly adjusted against contributed capital. This treatment was adopted to comply with the directions issued by

\textsuperscript{809} Department of Primary Industries, 2002-03 Annual Report, p.134
\textsuperscript{810} Budget Paper No. 3, 2003-04 Budget Estimates, p.297
\textsuperscript{811} Department of Primary Industries, 2002-03 Annual Report, p.134
the Minister for Finance under the *Financial Management Act* 1994;812

- additional funding of $66.9 million was received for drought assistance packages for farmers affected by the drought, of which $51.7 million was paid during the year. These arrangements resulted in higher than expected output appropriations and grant expenditure during the year;813 and

- a variety of factors contributed to delays in the implementation of a number of major capital infrastructure projects. This resulted in depreciation and capital assets charge expenditure being lower than originally budgeted.814

The financial performance of the Department for 2002-03 is shown in Exhibit 11.1.

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812 Ibid
813 Department of Primary Industries, response received on 18 December 2003 to the Committee’s 2002-03 Budget Outcomes Questionnaire, p.22
814 Department of Primary Industries, 2002-03 Annual Report, p.134
## Exhibit 11.1

### Department of Primary Industries

#### Statement of Financial Performance 2002-03

<table>
<thead>
<tr>
<th>Controlled Operations</th>
<th>2002-03 Budget (a) ($ million)</th>
<th>2002-03 Actual ($ million)</th>
<th>Variance (b) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue from ordinary activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output appropriations</td>
<td>118.7</td>
<td>186.4</td>
<td>67.7</td>
</tr>
<tr>
<td>Resources received free of charge</td>
<td>72.6</td>
<td>-</td>
<td>-72.6</td>
</tr>
<tr>
<td>Sale of goods and services</td>
<td>12.2</td>
<td>15.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Taxes</td>
<td>2.6</td>
<td>2.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Fines and Fees</td>
<td>3.0</td>
<td>2.6</td>
<td>-0.4</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>0.1</td>
<td>9.5</td>
<td>9.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>209.2</td>
<td>216.7</td>
<td>7.5</td>
</tr>
</tbody>
</table>

### Expenditure from ordinary activities

<table>
<thead>
<tr>
<th></th>
<th>2002-03 Budget (a) ($ million)</th>
<th>2002-03 Actual ($ million)</th>
<th>Variance (b) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee benefits</td>
<td>56.4</td>
<td>56.1</td>
<td>-0.3</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>8.9</td>
<td>3.7</td>
<td>-5.2</td>
</tr>
<tr>
<td>Resources provided free of charge</td>
<td>8.8</td>
<td>-</td>
<td>-8.8</td>
</tr>
<tr>
<td>Grants and other payments</td>
<td>8.8</td>
<td>69.9</td>
<td>61.1</td>
</tr>
<tr>
<td>Capital assets charge</td>
<td>12.3</td>
<td>5.7</td>
<td>-6.6</td>
</tr>
<tr>
<td>Supplies and services</td>
<td>50.2</td>
<td>49.3</td>
<td>-0.9</td>
</tr>
<tr>
<td>Other expenses</td>
<td>0.0</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>145.4</td>
<td>186.0</td>
<td>40.6</td>
</tr>
</tbody>
</table>

**Net result for reporting period**

<table>
<thead>
<tr>
<th></th>
<th>2002-03 Budget (a) ($ million)</th>
<th>2002-03 Actual ($ million)</th>
<th>Variance (b) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>63.8</td>
<td>30.7</td>
<td>-33.1</td>
</tr>
</tbody>
</table>

### Administered Operations

<table>
<thead>
<tr>
<th></th>
<th>2002-03 Budget (a) ($ million)</th>
<th>2002-03 Actual ($ million)</th>
<th>Variance (b) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resources received free of charge</td>
<td>5.2</td>
<td>0.0</td>
<td>-5.2</td>
</tr>
<tr>
<td>Sale of goods and services</td>
<td>19.2</td>
<td>27.5</td>
<td>8.3</td>
</tr>
<tr>
<td>Commonwealth grants</td>
<td>3.3</td>
<td>10.9</td>
<td>7.6</td>
</tr>
<tr>
<td>Fees</td>
<td>5.5</td>
<td>6.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Other</td>
<td>4.3</td>
<td>12.4</td>
<td>8.1</td>
</tr>
<tr>
<td><strong>Total administered revenue</strong></td>
<td>37.5</td>
<td>56.8</td>
<td>19.3</td>
</tr>
</tbody>
</table>

### Administered expenses

<table>
<thead>
<tr>
<th></th>
<th>2002-03 Budget (a) ($ million)</th>
<th>2002-03 Actual ($ million)</th>
<th>Variance (b) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses on behalf of the State</td>
<td>0.4</td>
<td>0.0</td>
<td>-0.4</td>
</tr>
<tr>
<td>Grants and other payments</td>
<td>0.0</td>
<td>8.2</td>
<td>8.2</td>
</tr>
<tr>
<td>Payments into the consolidated fund</td>
<td>32.2</td>
<td>43.2</td>
<td>11.0</td>
</tr>
<tr>
<td><strong>Total administered expenses</strong></td>
<td>32.6</td>
<td>51.4</td>
<td>18.8</td>
</tr>
<tr>
<td><strong>Revenue less expenses</strong></td>
<td>4.9</td>
<td>5.4</td>
<td>0.5</td>
</tr>
</tbody>
</table>

**Notes:**

(a) Adjusted for the machinery of government changes for the period 1 January 2003 to 30 June 2003

(b) A negative variance indicates there is a Budget surplus for the particular line item

**Source:** Department of Primary Industries, Annual Report 2002-03, p.134 and 138

Other material variances in the Statement of Financial Performance were attributed to:

- higher than expected research contributions which were included in the sale of goods and services line item; and
non-budgeted other revenue which included the forgiveness of a loan of $8.2 million by the Government in return for an agreement by the Department to implement revised arrangements relating to the control of Ovine Johne’s Disease. The loan was held by the Department on behalf of the sheep industry and related to advances received by the Department to fund compensation payments to owners of sheep affected by Ovine Johne’s Disease.

The major contributing factors leading to variances in administered transactions of the Department for 2002-03 included:\footnote{816}

- higher than budgeted research contributions for agriculture projects as reflected in the higher level of revenue from the sale of goods and services;

- receipt of additional Commonwealth grants of $7.6 million under the National Drought Exceptional Circumstances Program; and

- recognition of brown coal royalties revenue of $7.9 million by the Department for the first time since January 2003. These amounts were previously reported by the Department of Treasury and Finance.\footnote{817}

Payments into the consolidated fund mirrored the higher level of administered revenue received by the Department during 2002-03.

At 30 June 2003, the Department controlled net assets of $254.4 million comprising total assets of $308.9 million and total liabilities of $54.5 million. The net asset position of the Department was within 10 per cent of the 2002-03 budget.\footnote{818}

Exhibit 11.2 details the composition of assets and liabilities of the Department at 30 June 2003:

\footnotesize
\begin{itemize}
  \item Department of Primary Industries, 2002-03 Annual Report, p.134, Department of Primary Industries, response received on 18 December 2003 to the Committee’s 2002-03 Budget outcomes questionnaire, p.2
  \item Department of Primary Industries, 2002-03 Annual Report, p.138
  \item Department of Primary Industries, response received on 18 December 2003 to the Committee’s 2002-03 Budget outcomes questionnaire, p.3
  \item Department of Primary Industries, 2002-03 Annual Report, pp.135,136 and 138
\end{itemize}

373
### Exhibit 11.2

**Department of Primary Industries**

**Statement of Financial Position 2002-03**

<table>
<thead>
<tr>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002-03 Budget (a) ($ million)</td>
<td>2002-03 Actual ($ million)</td>
</tr>
<tr>
<td><strong>Controlled Operations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Assets</td>
<td>8.3</td>
<td>9.2</td>
</tr>
<tr>
<td>Receivables</td>
<td>5.2</td>
<td>10.3</td>
</tr>
<tr>
<td>Inventories</td>
<td>3.4</td>
<td>2.9</td>
</tr>
<tr>
<td>Prepayments</td>
<td>0.6</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>17.5</td>
<td>25.4</td>
</tr>
<tr>
<td><strong>Non-Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>39.5</td>
<td>57.0</td>
</tr>
<tr>
<td>Other Financial Assets</td>
<td>16.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Property, Plant and Equipment</td>
<td>210.0</td>
<td>211.3</td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>9.8</td>
<td>10.1</td>
</tr>
<tr>
<td><strong>Total Non-Current Assets</strong></td>
<td>275.3</td>
<td>283.5</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>292.8</td>
<td>308.9</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>2.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Provisions</td>
<td>13.2</td>
<td>13.9</td>
</tr>
<tr>
<td>Other</td>
<td>0.6</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>16.0</td>
<td>17.6</td>
</tr>
<tr>
<td><strong>Non-Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Bearing Liabilities</td>
<td>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Provisions</td>
<td>33.6</td>
<td>35.0</td>
</tr>
<tr>
<td>Amounts owing to other departments</td>
<td>8.2</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Non-Current Liabilities</strong></td>
<td>43.7</td>
<td>36.9</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>59.7</td>
<td>54.5</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>233.1</td>
<td>254.4</td>
</tr>
</tbody>
</table>

**Administered Operations**

| | Administered Assets | Administered Liabilities |
| | | |
| Cash assets | 3.5 | 0.1 |
| Receivables | 18.4 | 0.1 |
| **Total** | 21.9 | 0.1 |

**Administered Liabilities**

| | | |
| Payables | 0.1 | 0.1 |
| Interest bearing liabilities | 0.1 | 0.0 |
| Other | 3.2 | 5.5 |
| **Total** | 3.4 | 5.8 |

Notes:

(a) 2002-03 Budget incorporates adjustments for machinery of government changes for the period 1 January 2003 to 30 June 2003

(b) A negative variance indicates the actual result for the particular line item was below Budget

Source: Department of Primary Industries, 2002-03 Annual Report, pp.135,136 and 138
The Department provided the following explanations for material variations between the adjusted budget and actual results in the Statement of Financial Position:819

- the increase in receivables resulted from a higher than budgeted GST recoverable amount from the Australian Taxation Office. Amounts owed by the Department of Treasury and Finance for services rendered by the Department of Primary Industries were also higher than budgeted;

- variances in financial assets resulted from an incorrect classification of property assets as financial assets within the budget figure for 2002-03. Actual property plant and equipment values were in fact lower than Budget (after adjusting for the incorrect classification of property assets) due to delays in the implementation of capital works; and

- the variance in amounts owing to other Departments reflects the Government’s decision to forgive the Ovine Johne’s Disease loan.820

The increase in administered receivables was attributed to brown coal royalties owing to the Department. These amounts were not included in the budget figure for 2002-03 as the responsibility for collection of brown coal royalties vested with the Department of Treasury and Finance until January 2003.

Administered liabilities were over budget mainly due to a higher level of Commonwealth funds that had been received by the Department during 2002-03 but were yet to be disbursed to eligible farmers under the Exceptional Circumstances (EC) drought relief packages scheme.821

In 2002-03, the Department received additional funding of $117.5 million to deliver its outputs, bringing its total funding allocation to $262.6 million. A Treasurer’s Advance of $72.2 million to meet additional drought assistance and recovery costs formed a significant component of the additional funding allocation.822

819 Ibid, p.136
820 Department of Primary Industries, response received on 18 December 2003 to the Committee’s 2002-03 Budget outcomes questionnaire, p.4
821 Department of Primary Industries, 2002-03 Annual Report, Ibid p.138
822 Department of Primary Industries, response received on 18 December 2003 to the Committee’s 2002-03 Budget outcomes questionnaire, p.22
The Committee noted that the Department spent $204.1 million of its total funding appropriation authority of $262.6 million during 2002-03. As a consequence, funds of $58.5 million or 22.3 per cent of the Department’s funding appropriation authority for 2002-03 remained unspent at 30 June 2003. Of the total amount of unspent funds, $26.7 million related to capital projects. The Department advised that the level of underspending resulted from delays in the implementation of capital projects and the reprioritisation of a number of projects to 2003-04 due to the effects of drought and bushfires.  

11.1.1 Employee expenses

The Department employed 2,569 staff (2,254 full time and 315 part-time) at 30 June 2003 at a total cost of $56.1 million (including salary and wages, superannuation, annual leave and long service leave expenses and other salary on-costs).  

Employee expenditure incurred during 2002-03 included three voluntary departure packages paid to staff at a total cost of $115,708. These packages were funded out of a combination of leave liabilities and recurrent salary budgets. Bonus payments totalling $161,335 (excluding executive officers) were paid to 44 staff across the Department. The Committee observed that bonus payments were distributed across all staff classifications with increased numbers of staff qualifying for bonuses at the VPS2, VPS3 and VPS5 staff classifications. The Department advised that all staff are eligible for the payment of a performance bonus for exceptional one-off achievements by an individual or work team. Examples of eligibility criteria for bonus payments by the Department include:  

- a major breakthrough in a field of research which has the potential to significantly benefit the Department or its clients; or  
- identification and introduction of a significantly improved or new system, method or process which boosts workplace productivity through increased output or reduced costs; or  
- a significant “one-off” contribution by a staff member, which goes well beyond that which would normally be expected.

823 Department of Primary Industries, 2002-03 Annual Report, pp.108-109  
824 Ibid, p.71 and 134  
825 Department of Primary Industries, response received on 18 December 2003 to the Committee’s 2002-03 Budget outcomes questionnaire, pp.5-6
The Department indicated that there were no performance bonuses paid to Executive Officers or Principal Scientists in the period from when the Department was created, i.e. 5 December 2002 to 30 June 2003. Executive bonus payments prior to this period were reported by the Department of Sustainability and Environment as the successor organisation in law.826

No WorkCover premiums were paid by the Department during 2002-03 as the Department was not a WorkCover entity during this period. Prior to 1 July 2003, the Department was covered for WorkCover purposes by the policy of the former Department of Natural Resources and Environment.827

The Department also advised that no stress claims were lodged with the Department since the date of its establishment in December 2002.828

11.1.2 Asset investment program

The Asset Investment Program for 2002-03 was budgeted at $46.2 million (excluding projects funded out of the Growing Victoria Infrastructure Reserve) with a major focus on the development of the Royal Melbourne Showgrounds and the redevelopment of a number of agriculture and marine institutes. Actual expenditure for 2002-03 was 66 per cent below budget at $15.9 million mainly due to delays in the commencement of development works for the following two major projects:829

**Royal Melbourne Showgrounds**

Funding of $101 million has been committed by the Government over a three year period to 2004-05 to redevelop the Royal Melbourne Showgrounds at Ascot Vale.830 The redevelopment of the showgrounds was postponed to 2003-04 pending the establishment of the joint venture agreement between the State Government and the Royal Agricultural Society. As a result, the Department incurred expenditure of only $4 million against a Budget of $25.2 million during 2002-03.831

The Committee noted that expressions of interest for the development of the showgrounds were subsequently invited from interested parties in

826 Department of Primary Industries, response received on 25 February 2003, to the Committee’s follow-up questions
827 Department of Primary Industries, response received on 18 December 2003 to the Committee’s 2002-03 Budget outcomes questionnaire, p.6
828 Ibid
829 Ibid, p.12
830 Budget Paper No.2, 2002-03 Budget Statement, p.205
831 Ibid, p.28
October 2003, following the finalisation of the partnership venture between the State and the Royal Agricultural Society. Project construction is anticipated to commence after the conclusion of the 2004 Royal Melbourne Show in September and to be completed in time for the 2006 Show.

**Marine and Freshwater Resources Institute**

Delays were experienced in the redevelopment of the Marine and Freshwater Resources Institute (MAFRI) at Queenscliff, estimated to cost $20 million, due to the discovery of asbestos contamination and complications in obtaining planning approvals. The date for completion of this project has been extended by eight months to August 2004.

The Department also extended the completion dates by six to twelve months for a number of projects funded under the Growing Victoria Infrastructure Reserve (GVIR) initiative due to delays experienced in the planning and design phases of the projects. The Committee noted that expenditure on GVIR projects which mainly related to the modernisation of research facilities, amounted to $22.1 million in 2002-03. This represented a reduction of approximately $3 million against the 2002-03 Budget allocation.

The Committee is concerned that delays in capital works may lead to an overall increase in project costs through inflationary and other project extension impacts. In this regard the Committee noted that a revision to costs from $17 million to $20 million was required during 2002-03 for the Marine and Freshwater Resources Institute Site Redevelopment. Part of the estimated cost increases associated with the discovery of asbestos at the site.

The Committee is also concerned that delays in the implementation of capital works may adversely impact on the efficiency and effectiveness of output and service delivery by the Department.

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832 Department of Premier and Cabinet website, media release from the Minister for Agriculture, dated October 2, 2003
833 Correspondence, dated 3 March 2004, from the Acting Secretary of the Department of Primary Industries
834 Department of Primary Industries, response received on 18 December 2003 to the Committee's 2002-03 Budget outcomes questionnaire, p.12
835 Ibid, p.13
836 Ibid, pp.16 and 17
837 Ibid, pp.14-15
838 Ibid, p.13
The Committee recommends that:

**Recommendation 76:** The Department of Primary Industries assess the impact of delays in the implementation of capital works in terms of future cost implications, the achievement of key performance targets and measures and the delivery of services and outputs.

**Recommendation 77:** Contract management frameworks be reviewed by the Department of Primary Industries to address delays in the planning and design phases of a number of Growing Victoria Infrastructure Reserve projects.

### 11.2 Output group expenditure analysis

The Department was responsible for the delivery of eight outputs across the three output groups of Agriculture, Fisheries and Minerals and Petroleum.

Actual to Budget comparisons of expenditure for each output group are further detailed in Exhibit 11.3.  

**Exhibit 11.3**

<table>
<thead>
<tr>
<th>Output Group</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>111.2</td>
<td>160.5</td>
<td>49.3</td>
</tr>
<tr>
<td>Fisheries</td>
<td>24.4</td>
<td>17.3</td>
<td>-7.1</td>
</tr>
<tr>
<td>Minerals and Petroleum</td>
<td>9.7</td>
<td>8.2</td>
<td>-1.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>145.3</td>
<td>186.0</td>
<td>40.7</td>
</tr>
</tbody>
</table>

**Notes:**

(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003

(b) A negative variance indicates there is a Budget surplus for the particular line item

The Department advised that the increased level of expenditure in the Agriculture output group reflected additional drought assistance grants that were provided to 2,907 eligible farmers in drought declared areas. As previously indicated, additional funding in the form of a Treasurer’s Advance was received by the Department to support these payments.\footnote{Department of Primary Industries, response received on 18 December 2003 to the Committee’s 2002-03 Budget outcomes questionnaire, p.29}

Underspending in the Fisheries and Minerals and Petroleum output groups was attributed to a number of factors including delays in the finalisation of the Marine Parks legislation which resulted in some projects being deferred to 2003-04, lower depreciation and capital asset charge associated with delays in the redevelopment of the Queenscliff Research Centre, lower than anticipated external revenue for fisheries research and development projects and reduced wage costs following delays in the appointment of staff to a number of aquaculture and fish health services.\footnote{Department of Primary Industries, 2002-03 Annual Report, p.26-31}

\section*{11.3 Performance information}

Performance measures, targets and outcomes for each output group are disclosed in the 2002-03 annual report of the Department. The Committee noted that the Department achieved or surpassed most of its published performance targets, however some exceptions were noted in respect of the performance measures illustrated below.

\textbf{Exhibit 11.4}

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|}
\hline
Output Group/Performance Measure & Unit of Measure & 2002-03 Target & 2002-03 Actual \\
\hline
\textbf{Agriculture} & & & \\
\textbf{Community, Farm and Industry Development Services} & & & \\
Increase in the proportion of farmers involved in best practice & \% & 6 & 3.8 \\

\hline
\textbf{Fisheries} & & & \\
\textbf{Sustainable fisheries utilisation services} & & & \\
Number of fish produced for recreational stocking purposes ('000) & Number & 1 500 & 1 093 \\
\textbf{Industry and Community Compliance Services} & & & \\
Inspections conducted in the commercial sector & Number & 2 050 & 1 830 \\
Patrol hours by fisheries officers in Marine Parks & Number & 3 750 & 3 541 \\
\hline
\end{tabular}
\end{table}

Source: Department of Primary Industries, 2002-03 Annual Report, pp.20,26,27

\footnote{Department of Primary Industries, response received on 18 December 2003 to the Committee’s 2002-03 Budget outcomes questionnaire, p.29}
The non-achievement of performance targets in relation to the proportion of farmers involved in best practice under the Agriculture output group and the number of fish produced for recreational stocking purposes under the Fisheries output group, were directly linked to the drought. Performance targets on the number of inspections conducted in the commercial fisheries sector were not met due to the issuance of a WorkCover provisional improvement notice by the Victorian WorkCover Authority to the Department and subsequent work bans imposed by regional staff.

An Occupational Health and Safety risk assessment of fisheries enforcement activities in 2002-03 identified a 'defensive gap' in the ability of officers to safely withdraw from situations where the risk of physical assault rapidly escalates. Work bans were lifted on 18 September 2003, after operating procedures and training measures were put in place.842

The Committee understands that the targeted patrol hours by fisheries officers in Marine Parks were not required during 2002-03 as five parks continued to remain open to fishing until 1 April 2004.843 Patrolling of these parks for fishing activities will therefore only apply from this date.

The Committee is pleased to note that the majority of published performance targets were achieved by the Department during 2002-03. The Committee however recommends that where performance targets are consistently exceeded, consideration should be given by the Department to an upward revision of performance targets to encourage higher levels of performance and productivity. Higher levels of performance were consistently achieved for the following performance measures:844

- commercial technology research and development agreements finalised – against an established target of 50 agreements, the Department’s outcomes were 60 in 2001, 82 in 2002 and 168 in 2003; and
- number of technical publications in international and peer review journals, (Development of Next Generation Technologies for Sustainable Agriculture) – the Department has

842 Department of Primary Industries, response received on 18 December 2003 to the Committee’s 2002-03 Budget outcomes questionnaire, p.27
843 Ibid, pp.16-36
844 Department of Primary Industries, 2002-03 Annual Report, p.18
exceeded the established target of 260 journals by an average of 32 journals since 2001.

The Committee recommends that:

Recommendation 78: An upward revision to performance targets be undertaken where established targets have been consistently exceeded by the Department of Primary Industries.

The Committee’s review of performance measures published in the annual report of the Department identified the following issues:

- a number of targets and outcomes are expressed as being over a certain percentage value (>90 per cent);

- published performance measures do not adequately reflect the effectiveness of programs or services. For example, farmer participation rates in best practice programs are published, however this measure provides no indication of benefits that have been derived by farmers in applying best practice programs;

- there is not always a clear nexus between the cost of delivering outputs and the achievement or non-achievement of targets published in the annual report of the Department;

- targets had been revised downwards for the following performance measures during 2002-03 despite the Department having achieved higher than targeted performance outcomes in the previous year:
  - proportion of strategic quality assurance and animal welfare initiatives implemented within required timelines (from 100 per cent in 2001-02 to 95 per cent in 2002-03);
  - response time to all pest, disease and disaster incidents (from <24 hours in 2001-02 to <48 hours in 2002-03);
  - number of applications for publicly owned and protected intellectual property (from 5 in 2001-02 to 4 in 2002-03);
- additional management plans completed for sustainable management of fisheries resources (from 3 in 2001-02 to 1 in 2002-03); and

- quantity of licences, permits and authorities under administration in relation to minerals and petroleum regulation services (from 1658 in 2001-02 to 1650 in 2002-03).

- no performance measures or targets are published to evaluate the effectiveness of research activities and outcomes undertaken by the Department. The Committee notes that research activities constitute a significant area of operation in the Department.

The Committee recommends that:

**Recommendation 79:** To enhance disclosures of performance information in the annual report of the Department of Primary Industries:

(a) actual outcomes be more clearly defined (e.g. 92 per cent instead of >90 per cent);

(b) quantitative performance measures be further supplemented by effectiveness measures that demonstrate the achievement of program or service objectives; and

(c) performance measures and targets be published for research activities undertaken by research institutes.

**11.3.1 Benchmarking of performance measures**

The Department advised that benchmarking is not extensively used to develop performance targets and measure performance for the Minerals and Petroleum and Fisheries output groups. The Department indicated that the Minerals and Petroleum Division continually reviews performance across a range of internal activities, and where appropriate
applies the use of benchmarks in developing new or amending existing internal performance measures.\textsuperscript{845}

The Committee was also informed that there are no benchmarks for the delivery of fisheries across Australia as each jurisdiction is organised differently and has different responsibilities, different fisheries and different sizes.\textsuperscript{846}

A review of Agriculture output measures pertaining to \textit{Services to Improve Market Access, Market Development and Consumer Confidence} was undertaken by the Department during 2002-03. This involved an extensive survey and collection of benchmarked data from other State Government Departments. The ability of the Department to undertake comparisons of performance with other States was restricted due to differences in program composition, financial management and performance measurement methodologies across State Departments.\textsuperscript{847}

The Committee strongly supports the use of benchmarking in developing performance targets as a useful tool to drive continuous improvement in the delivery of services. To the extent that performance can be benchmarked against national and international performance, the Committee recommends that:

\textbf{Recommendation 80:} The Department of Primary Industries incorporate benchmarked data where available and relevant in developing performance measures and targets to better measure the efficiency and effectiveness of output delivery and departmental performance.

\section*{11.4 Status of major initiatives}

\subsection*{11.4.1 Drought assistance}

Funding of $82.5 million was allocated in the 2002-03 Budget to facilitate the payment of drought assistance packages to effected farmers.\textsuperscript{848} The Department informed the Committee that 4,732 applications were

\begin{itemize}
  \item \textsuperscript{845} Department of Primary Industries, response received on 18 December 2003 to the Committee’s 2002-03 Budget outcomes questionnaire, p.7
  \item \textsuperscript{846} Ibid, p.8
  \item \textsuperscript{847} Ibid, p.7
  \item \textsuperscript{848} \textit{Budget Paper No.2, 2003-04 Budget Statement}, p.243
\end{itemize}
received for Farm Business Support (cash) Grants of which 2,907 applications were approved by the Rural Finance Corporation (RFC) as program administrator. The total value of approved grants in 2002-03 amounted to $48 million. Other expenditure associated with the provision of drought assistance included:

- Administration of cash grants $3.6 million
- Rural financial counselling $400,000
- Community support activities $400,000
- Farm aid $500,000
- New and maintained community water bores $1.2 million

The Committee observed that there was limited information within the annual report of the Department on the utilisation of funds by recipients of drought assistance grants. The Committee encourages more detailed disclosure of key activities that have been undertaken by grant recipients and the outcomes that have been achieved under the drought recovery package initiative. This information could also serve to develop eligibility criteria for any future drought relief packages.

The Committee recommends that:

**Recommendation 81:** The disclosure of information on key outcomes achieved under the drought assistance package payments be included in the annual report of the Department of Primary Industries.

### 11.4.2 FarmBis

FarmBis is a jointly funded initiative of the Commonwealth and State Governments, aimed at improving the financial self reliance of primary producers and land managers through the provision of subsidised training activities to upgrade farm business and natural resource management skills.

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849 Department of Primary Industries, response received on 18 December 2003 to the Committee’s 2002-03 Budget outcomes questionnaire, p.29
Expenditure under the FarmBis initiative totalled $7.08 million during 2002-03 with the State contributing $3.5 million. The Budget allocation for this initiative was $8 million and sourced in equal proportions from the State and the Commonwealth. The Department advised that course participation attendance targets were achieved during 2002-03 with 11,389 participants attending FarmBis approved courses.850

11.4.3 Victorian Regional Aquaculture Development Program (VRAD)

In 2002-03, expenditure for VRAD projects amounted to $998,271 against an allocated Budget of $1 million. The Department advised that targets for the VRAD program were either met or exceeded, except for fish health surveillance performance indicators, where targets were not achieved due to a national shortage of aquatic veterinarians, which limited the capacity to recruit a suitably qualified fish veterinarian. Funds from this output were alternatively used to run industry fish health workshops, prepare fish health publications, review diseases affecting native fish and to coordinate fish health emergency planning simulation exercises.851

The Committee is concerned that the VRAD program may be compromised due to the difficulties experienced by the Department in appointing a suitably qualified fish veterinarian. Given that there is a national shortage of aquatic veterinarians, this issue could be brought to the attention of the Commonwealth Government which is responsible for funding university placements.

11.4.4 Victorian Ovine Johne's Disease control program

The 2002-03 Budget allocated $2.5 million for this program which is aimed at controlling Ovine Johne’s Disease (OJD), through the provision of support and advice to producers.852 Expenditure of $2.45 million was incurred by the Department during 2002-03 with the following milestones being achieved:853

- the establishment and operation of the Minister’s statewide OJD Advisory Committee;
- the appointment of a Communicator Co-ordinator;

850 Ibid, p.25
851 Department of Primary Industries, response received on 18 December 2003 to the Committee’s 2002-03 Budget outcomes questionnaire, p.27
852 Budget Paper No. 2, 2002-03 Budget Statement, p.201
853 Department of Primary Industries, response received on 18 December 2003 to the Committee’s 2002-03 Budget outcomes questionnaire, p.23
consultation with industry to establish Victoria’s position with respect to the future national OJD program that will come into effect after 1 July 2004;

the appointment and training of eight animal health staff for program delivery;

continued OJD surveillance; and

financial assistance measures for professional advice, vaccine subsidies, testing subsidies and culling high-risk sheep through the Sheep and Goat Compensation Fund.

The Committee believes that it would be useful to identify the effectiveness of the OJD Program on the basis of the number of OJD cases that are reported each year.

The Committee noted that overall there was scope for improvement in disclosures in the annual report of the Department on the financial and performance outcomes of major initiatives identified in Section 11.4. of this report.

The Committee recommends that:

**Recommendation 82:** Disclosures in the annual report of the Department of Primary Industries on major initiatives be strengthened to include:

(a) key performance measures and targets associated with major asset and output initiatives;

(b) progress against established milestones and targets; and

(c) actual and budgeted financial outcomes and explanations for any material variances.
Report on the 2002-03 Budget Outcomes
Chapter 12: Department of Sustainability and Environment

Key Findings of the Committee:

12.1 The total Budget for the Department of Sustainability and Environment and its agencies, adjusted for the machinery of government changes, was $1,075.7 million in 2002-03. Actual expenditure for the year was $1,203.4 million, $127.7 million or 11.9 per cent over budget.

12.2 The Department of Sustainability and Environment had an operating deficit of $63.6 million, which was $6.2 million below the 2002–03 budgeted operating result. The operating deficit was mainly due to the write-offs of assets associated with the former State owned Southern Hydro Ltd.

12.3 In 2002-03, the Department received additional funding through Treasurer’s advances of $186.3 million. The majority of this additional funding was provided to meet fire suppression and bushfire recovery costs ($106.4 million), legal costs and payouts associated with the Seal Rocks Sea Life Centre ($46.8 million) and drought recovery expenses ($10 million).

12.4 Explanations for variations between actual and Budget outcomes of the Department and its agencies as disclosed in the 2002-03 annual report of the Department were brief in some cases, and did not sufficiently identify the key reasons for such variations.

12.5 There was no disclosure of trust fund transactions in the 2002-03 annual report of the Department of Sustainability and Environment, despite the magnitude of trust fund transactions ($197 million in revenue and $204 million in expenditure) processed during the year.
Key Findings of the Committee (continued):

12.6 Performance bonuses were paid to 111 or 4.2 per cent of staff across the Department at a total cost of $789,639. Bonus payments were distributed across all staff classifications within the Department.

12.7 Actual expenditure on asset investment projects was 50 per cent below the allocated Budget for 2002-03 due to delays in the implementation of a number of projects.

12.8 The Department achieved 65 per cent of its published performance measures and targets during 2002-03. The impacts of the fire season and drought were the main reasons for non-achievement of a number of performance targets especially in the areas of catchment management and water management, public land management and forest and fire management.

12.9 The Environment Protection Authority (EPA) achieved most of its published performance targets for 2002-03. However, actual performance outcomes against targets were not disclosed in the annual reports of either the Department of Sustainability and Environment or the EPA.

12.10 Benchmarking techniques are not widely applied by the Department of Sustainability and Environment in developing performance measures and targets or to evaluate departmental performance in the delivery of programs, services and outputs.

12.11 $22.8 million was paid to recipients under the voluntary sawlog licence reduction program in 2002-03. This reflected a higher than expected industry take up of the voluntary sawlog licence reduction offer.

12.12 Overall, there was insufficient disclosure in the annual report of the Department of Sustainability and Environment on the extent to which key program outcomes or objectives had been achieved.
The Department of Sustainability and Environment was established on 5 December 2002, following the machinery of government changes. The Department is responsible for the water, forestry, greenhouse, land and environmental protection functions that were undertaken by the former Department of Natural Resources and Environment, and heritage, building, strategic and statutory planning functions that were previously undertaken by the Department of Infrastructure.\textsuperscript{854}

The Department supports the three ministerial portfolios of Environment, Water and Planning.

\textbf{12.1 Analysis of financial statements}

The total Budget of the Department of Sustainability and Environment and its agencies, adjusted for the machinery of government changes, was $1,075.7 million in 2002-03. Actual expenditure for the year was $1,203.4 million, $127.7 million or 11.9 per cent over budget.

The 2002-03 Budget, adjusted for the machinery of government changes, estimated an operating deficit of $69.8 million, largely due to the transfer of resources of $73.5 million to the Department of Primary Industries.\textsuperscript{855} However, this amount was reclassified as contributed capital during 2002-03, and therefore had no impact on the actual operating deficit of $63.6 million which was mainly attributed to the write down of fixed assets of $76.4 million.\textsuperscript{856}

Total revenue and expenditure of the Department and its agencies for 2002-03 is detailed in the Statement of Financial Performance at Exhibit 12.1.
### Exhibit 12.1

#### Department of Sustainability and Environment

#### Statement of Financial Performance 2002-03

<table>
<thead>
<tr>
<th>Controlled Operations</th>
<th>2002-03 Budget (a) ($ million)</th>
<th>2002-03 Actual ($ million)</th>
<th>Variation (b) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue from ordinary activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output Appropriations</td>
<td>876.1</td>
<td>1003.5</td>
<td>124.7</td>
</tr>
<tr>
<td>Resources received free of charge</td>
<td>8.8</td>
<td>0.3</td>
<td>-8.5</td>
</tr>
<tr>
<td>Sale of goods and services</td>
<td>23.7</td>
<td>28.7</td>
<td>5.0</td>
</tr>
<tr>
<td>Taxes</td>
<td>88.2</td>
<td>98.9</td>
<td>10.7</td>
</tr>
<tr>
<td>Fines and Fees</td>
<td>5.2</td>
<td>7.7</td>
<td>2.5</td>
</tr>
<tr>
<td>Other revenue and revenue from other parties</td>
<td>3.9</td>
<td>0.7</td>
<td>-3.2</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>1005.9</strong></td>
<td><strong>1139.8</strong></td>
<td><strong>133.9</strong></td>
</tr>
<tr>
<td><strong>Expenditure from ordinary activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>251.5</td>
<td>299.2</td>
<td>47.7</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>33.5</td>
<td>30.0</td>
<td>-3.5</td>
</tr>
<tr>
<td>Resources provided free of charge</td>
<td>73.5</td>
<td>1.9</td>
<td>-71.6</td>
</tr>
<tr>
<td>Grants and other payments</td>
<td>353.0</td>
<td>313.3</td>
<td>-39.7</td>
</tr>
<tr>
<td>Capital assets charge</td>
<td>70.1</td>
<td>65.0</td>
<td>-5.1</td>
</tr>
<tr>
<td>Supplies and services</td>
<td>294.1</td>
<td>415.8</td>
<td>121.7</td>
</tr>
<tr>
<td>Other expenses</td>
<td>0.0</td>
<td>78.0</td>
<td>78.0</td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>0.0</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td><strong>1075.7</strong></td>
<td><strong>1203.4</strong></td>
<td><strong>127.7</strong></td>
</tr>
<tr>
<td><strong>Net result for reporting period</strong></td>
<td><strong>-69.8</strong></td>
<td><strong>-63.6</strong></td>
<td><strong>6.2</strong></td>
</tr>
</tbody>
</table>

| Administered Operations |                                |                             |                           |
| Administered revenue    |                                 |                             |                           |
| Appropriations – Payments made on behalf of the State | 22.8                           | 22.3                        | -0.5                      |
| Resources received free of charge | 0.3                            | 0.0                         | -0.3                      |
| Sale of goods and services | 180.7                          | 242.8                       | 62.1                      |
| Commonwealth grants      | 49.1                           | 58.5                        | 9.4                       |
| Fines                   | 0.0                            | 0.6                         | 0.6                       |
| Fees                    | 6.6                            | 25.9                        | 19.3                      |
| Other                   | 53.3                           | 67.9                        | 14.6                      |
| **Total Administered Revenue** | **312.8**                      | **418.0**                   | **105.2**                 |
| Administered expenses    |                                 |                             |                           |
| Expenses on behalf of the State | 6.5                            | 0.1                         | -6.4                      |
| Grants and other payments | 21.5                           | 22.7                        | 1.2                       |
| Other expenses (c)       | 0.0                            | -1.3                        | -1.3                      |
| Payments into the consolidated fund | 296.6                          | 387.4                       | 90.8                      |
| **Total Administered Expenses** | **324.6**                      | **408.9**                   | **84.3**                  |

**Notes:**
(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003
(b) A negative variance indicates there is a Budget surplus for the particular line item
(c) The Department of Sustainability and Environment advised that the actual result for 2002—03 relates to bad and doubtful debts

**Sources:** Budget Paper No. 3, 2003-04 Budget Estimates, pp.341-344, Department of Sustainability and Environment, Annual Report 2002-03, pp.153-159
Explanations for material variances in the Statement of Financial Performance were detailed in the Department’s 2002-03 annual report. The following further explanations were also provided by the Department:

- An increase in output appropriations was mainly attributed to additional funding for fire suppression costs associated with the 2002-03 severe fire season. Additional funding was also received to settle the legal claim against the Government in relation to the Seal Rocks Sea Life Centre;

- Machinery of government changes were treated as contributed capital and not as revenue or expenditure (resources received or provided) as originally budgeted. This treatment was adopted to comply with the directions issued by the Minister for Finance under the Financial Management Act 1994;

- Increased revenue from the sale of goods and services was linked to increased activities in the areas of externally funded projects, contractor logging and camps and recreation programs;

- Legislation changes relating to the methodology for increasing the landfill levy, resulted in increased EPA income;

- Fees were higher than budgeted due to an increase in the amount of regulatory fees collected by EPA;

- Other revenue decreased by $3.2 million as a result of the value of assets disposed of during the year ($9.09 million) and offset by increases in revenue arising from the recognition of assets for the first time, i.e. found assets ($4.62 million), additional grants from general government sector ($3.08 million) and interest from the Department of Treasury and Finance on trust fund balances ($780,000);

- Increased employee benefits costs resulted from additional staff numbers employed during 2002-03 to deal with fire emergency activities;

- Delays in the Asset Investment Program led to lower than budgeted expenditure for depreciation and amortisation;

857 Ibid, pp.154-159
858 Department of Sustainability and Environment response, received on 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.2-3
Report on the 2002-03 Budget Outcomes

- grant payments were below Budget due to various grants to private sector businesses not progressing in the timeframes expected. In this regard the Committee notes that $15.7 million in grant payments for logging reduction projects did not progress in the timeframes expected;
- supplies and services were higher than Budget due to increased fire management costs and settlement of the claim relating to the Seal Rocks Seal Life Centre; and
- other expenses that were not budgeted but incurred during 2002-03 included doubtful debts ($1.58 million), write down of self generating/regenerating assets, i.e. commercial forests ($22.18 million) and revaluation/write down of fixed assets and inventory ($54.25 million).

Variances in administered revenue and expenditure were attributed to the following:859

- revenue from the sale of goods was higher than budgeted due to an increased level of activity and fee collections from Titles Office operations;
- higher than budgeted Commonwealth grants were received under the Forests Industry Structural Investment Program, National Action Plan for Salinity and Water Quality and Weeds of National Significance Program;
- EPA regulatory fees collected were higher than budgeted;
- other revenue including gross proceeds from the sale of land and revenue from land leases and licences was higher than expected;
- expenses on behalf of the State were under Budget due to the treatment of machinery of government changes as contributed capital in line with the Directions issued by the Minister for Finance under the authority of the Financial Management Act 1994. The Budget included the machinery of government changes as an expense item;

859 Ibid, pp.5-6
the increase in other expenses related to bad and doubtful debts of $1.3 million that were not budgeted; and

increased payments into the Consolidated Fund reflected increased revenue from administered operations.

The Committee noted the impact of fixed asset write-offs on the operating result of the Department during 2002-03. The Committee was advised that assets valued at $45.8 million (including plant and equipment of $14 million), relating to the Southern Hydro Scheme, were written off during 2002-03 at the direction of the Department of Treasury and Finance. The former State owned Southern Hydro Ltd, which owned and operated 3 hydro-electricity schemes at Kiewa, Dartmouth and Eildon, as well as some minor plants at other locations, was sold to a private consortium in 1997. At the time, the structural assets of the hydro-electricity schemes were transferred to the then Department of Natural Resources.

In 2002-03, it was determined that the structural assets should no longer be recognised in the books of the Department of Sustainability and Environment, as the nature of the sale agreement, in essence, transferred the economic benefits or control of the structural assets to the private consortium. As control over assets is an accounting pre-requisite for recognising and reporting assets, a recommendation was accepted by the Victorian Auditor-General to write off the structural assets in the books of the Department of Sustainability and Environment as at 30 June 2003. These assets were valued at $45.8 million.

In 2002-03, the Department received additional funding in the form of Treasurer’s advances of $186.3 million. Additional funds were mainly provided for fire suppression and bushfire recovery costs ($109.2 million), legal costs and payouts associated with the Seal Rocks Sea Life Centre claim ($46.8 million) and drought recovery expenses ($10 million).

The Department also had access to unspent funds carried over from the previous year of $73.9 million which were fully utilised during 2002-03 on a diverse range of projects including Victorian Greenhouse Strategy.

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860 Department of Sustainability and Environment response, received on 23 February 2004, to the Committee’s follow-up questions, p.1
861 Ibid
862 Department of Sustainability and Environment response, received on 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.29-30
863 Ibid, p.29
Report on the 2002-03 Budget Outcomes

($12.3 million), Restoring Environmental Flows to the Snowy River ($15.6 million) and Redeveloping Research Institutes ($15.4 million). At 30 June 2003, the Department had underspent its total available funding by $118.2 million due to delays in the implementation of various projects which were mainly attributed to the extended drought and fire season and increased community and stakeholder consultation for certain projects including the development of Casey Weir and the Sandridge Bridge project.

Projects valued at $1 million or over, for which funding had been approved but not spent by the Department as at 30 June 2003 are detailed at Exhibit 12.2:

**Exhibit 12.2**

<table>
<thead>
<tr>
<th>Project Description</th>
<th>2002—03 Unspent Funding ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Titles Automation Project</td>
<td>1.4</td>
</tr>
<tr>
<td>Snowy Environmental Flows</td>
<td>8.1</td>
</tr>
<tr>
<td>National Action Plan for Salinity and Water Quality</td>
<td>11.9</td>
</tr>
<tr>
<td>Growing Victorian Forests</td>
<td>1.5</td>
</tr>
<tr>
<td>Victorian Forest Industry Structural Adjustment Program</td>
<td>7.0</td>
</tr>
<tr>
<td>Victorian Greenhouse Strategy</td>
<td>9.4</td>
</tr>
<tr>
<td>Solar Hot Water Conversion Grants</td>
<td>3.0</td>
</tr>
<tr>
<td>Regional Flood Mitigation and Natural Disaster Risk Management Studies</td>
<td>1.3</td>
</tr>
<tr>
<td>Sunraysia Salt Interception Scheme</td>
<td>2.1</td>
</tr>
<tr>
<td>Snowy Initiative — Casey Weir</td>
<td>21.4</td>
</tr>
<tr>
<td>Land Exchange</td>
<td>7.0</td>
</tr>
<tr>
<td>New Town Sewerage</td>
<td>4.4</td>
</tr>
<tr>
<td>Piping the System</td>
<td>2.9</td>
</tr>
<tr>
<td>Transit Cities</td>
<td>1.3</td>
</tr>
<tr>
<td>CBD Accommodation Consolidation</td>
<td>6.0</td>
</tr>
<tr>
<td>ICT Data Centre</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: Department of Sustainability and Environment response, received on 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.31

864 Ibid, p.34
865 Department of Sustainability and Environment, 2002-03 Annual Report, pp.116-117
The Department obtained approval from the Department of Treasury and Finance to carry over $111.4 million of its total unspent funds of $118.2 million into the next financial year. The difference primarily related to the unspent capital asset charge of the Department.866

The Committee is concerned that delays in the implementation of projects may not only impact on the ability of the Department to effectively deliver its outputs and programs but also adversely impact on costs and the timely implementation of projects earmarked for 2003-04.

At 30 June 2003, the Department and its agencies controlled total assets of $3,527.5 million and liabilities of $88.3 million. Actual asset values were marginally (3.3 per cent) higher than projected, mainly due to an upward revaluation of assets (conservation reserves) and additions to buildings and plant and equipment. Liabilities were 6.4 per cent below Budget, as payments to creditors were processed earlier than budgeted.867

Exhibit 12.3 sets out the composition of assets and liabilities of the Department and its agencies at 30 June 2003:
## Exhibit 12.3

**Department of Sustainability and Environment and its Agencies**

**Statement of Financial Position at 30 June 2003**

<table>
<thead>
<tr>
<th>Controlled Operations</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets (c)</td>
<td>-19.9</td>
<td>-9.3</td>
<td>10.6</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>16.6</td>
<td>18.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Receivables</td>
<td>31.1</td>
<td>35.9</td>
<td>4.8</td>
</tr>
<tr>
<td>Inventories</td>
<td>7.6</td>
<td>11.1</td>
<td>3.5</td>
</tr>
<tr>
<td>Prepayments</td>
<td>0.0</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>35.4</strong></td>
<td><strong>57.0</strong></td>
<td><strong>21.6</strong></td>
</tr>
<tr>
<td><strong>Non-Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>102.1</td>
<td>84.0</td>
<td>-18.1</td>
</tr>
<tr>
<td>Inventories</td>
<td>5.8</td>
<td>12.3</td>
<td>6.5</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>231.8</td>
<td>223.8</td>
<td>-8.0</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>2710.0</td>
<td>2851.1</td>
<td>141.1</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>48.4</td>
<td>39.3</td>
<td>-9.1</td>
</tr>
<tr>
<td>Other</td>
<td>281.9</td>
<td>260.0</td>
<td>-21.9</td>
</tr>
<tr>
<td><strong>Total Non-Current Assets</strong></td>
<td><strong>3380.0</strong></td>
<td><strong>3470.5</strong></td>
<td><strong>90.5</strong></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>3415.4</td>
<td>3527.5</td>
<td>112.1</td>
</tr>
</tbody>
</table>

| **Current Liabilities** |          |          |            |
| Payables               | 31.1     | 21.7     | -9.4       |
| Provisions             | 15.7     | 22.0     | 6.3        |
| Other                  | 5.1      | 2.9      | -2.2       |
| **Total Current Liabilities** | **51.9** | **46.6** | **-5.3** |

| **Non-Current Liabilities** |          |          |            |
| Interest bearing liabilities | -0.1  | 0.0      | 0.1        |
| Provisions               | 42.8     | 41.7     | -1.1       |
| Other                    | -0.3     | 0.0      | 0.3        |
| **Total Non-Current Liabilities** | **42.4** | **41.7** | **-0.7** |
| **Total Liabilities**    | 94.3     | 88.3     | -6.0       |
| **Net Assets**           | 3321.1   | 3439.2   | 118.1      |

**Administered Operations**

| Administered Assets |          |          |            |
| Receivables        | 31.7     | 30.5     | -1.2       |
| Other financial assets | 0.1  | 0.1      | 0.0        |
| **Total administered assets** | **31.8** | **30.6** | **-1.2** |

| Administered Liabilities |          |          |            |
| Payables               | 0.2      | 1.0      | 0.8        |
| Interest bearing liabilities | 0.2  | 0.0      | -0.2       |
| Other                  | 25.7     | 6.8      | -18.9      |
| **Total administered liabilities** | **26.1** | **7.8** | **18.3** |
Notes: (a) 2002-03 Budget incorporates adjustments for machinery of government changes for the period 1 January 2003 to 30 June 2003
(b) A negative variance indicates the actual result for the particular line item was below Budget
(c) In the Budget estimates and actual result for 2002—03 the cash assets balance was in negative. The variance between Budget and actual reflected a decrease in the negative cash assets balance


The Department identified the following reasons for material variances in actual to Budget outcomes reported in the Statement of Financial Position:868

- cash assets - a redemption of short term investments resulted in improving the negative cash balance when compared to budget;
- current receivables - recoverable GST input tax credits were higher than expected leading to an increase in the actual receivable figure;
- inventories of logs in dump and seed bank were higher than projected;
- actual prepayments were higher than budgeted, mainly due to prepaid property rentals;
- non-current receivables mainly comprised monies due from the Department of Treasury and Finance and were lower than budgeted;
- non-current inventories were higher than Budget due to the reclassification of some parcels of Crown Land as inventories representing land held for resale;
- intangibles such as software and web site costs associated with the Minerals and Petroleum System and Victorian Aboriginal Heritage Information System, were transferred to the Department of Primary Industries and Department for Victorian Communities, following the machinery of government changes. These transfers were not adequately reflected in the budget;869 and

868 Ibid
869 Department of Sustainability and Environment response, received on 23 February 2004, to the Committee’s follow-up questions, p.2
• the increase in employee benefits was linked to a lower percentage of staff utilising their annual leave during 2002-03. The Department advised that the prolonged fire season restricted the ability of staff to take annual leave. In addition, actual employee benefits included unbudgeted performance bonuses of $789,639 payable to VPS staff in July 2003.870

In reviewing the explanations for variations between actual and budget outcomes of the Department and its agencies as disclosed in the 2002-03 annual report of the Department, the Committee noted that in some cases the explanations were brief and did not sufficiently identify the key reasons for such variations.

The Committee recommends that:

Recommendation 83: The Department of Sustainability and Environment more clearly identify in its annual report the key factors that have contributed to material variances in actual to budget financial outcomes.

12.1.1 Loss on disposal of assets

The Department incurred a loss of $11.2 million on the disposal of property, plant and equipment during 2002-03. This result was linked to the removal of assets from the Fixed Assets Register following a stock take of assets, and the reclassification of some assets as expenses in line with the Department’s capitalisation threshold policy to expense assets valued at less than $1,000. 871

870 Ibid, p.2
871 Department of Sustainability and Environment response, received on 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.7
The Committee recommends that:

**Recommendation 84:** The Department of Sustainability and Environment:

(a) review its asset recording procedures to ensure compliance with the Department’s capitalisation thresholds is achieved at all times; and

(b) review the arrangements for the security of assets, given that assets were deleted from the Fixed Asset Register, following a stock take.

### 12.1.2 Trust fund balances

At 30 June 2003, the Department controlled nine trust funds with a total balance of $60.6 million. Revenue of $197 million and expenditure of $204.3 million was processed against these trust funds during 2002-03.872 The Department was also responsible for the administration of four trust funds with a total balance of approximately $474,000.873

The relevance and appropriateness of certain trust funds was examined by the Auditor-General as part of an audit review of Parliamentary control and management of appropriations undertaken in April 2003.874 This review specifically identified that two Trust accounts maintained by the Department (Plant and Machinery Trust Fund and the Stores Suspense Trust Account) which were set up under the cash based appropriation framework, could now be adequately managed within the existing appropriation and accountability framework, without the need to operate separate trust accounts.

The Committee supports the recommendations of the Auditor-General of the need for ongoing assessment and review by individual departments and the Department of Treasury and Finance in its central agency role, of the relevance and appropriateness of trust funds.

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872 Ibid, p.28
873 Ibid, pp.27-29
The Committee also noted that there was no disclosure of trust fund transactions in the 2002-03 annual report of the Department, despite the magnitude of trust fund revenue and expenditure that was processed during the year.

The Committee recommends that:

Recommendation 85: Financial information relating to each departmental trust fund be summarised in the annual report of the Department of Sustainability and Environment.

12.1.3 Employee related expenses

The Department employed 2,659 staff (2,460 full time and 199 part time) at 30 June 2003. The Department employed 2,659 staff (2,460 full time and 199 part time) at 30 June 2003.875 Employee costs (including salary and wages, superannuation, annual leave and long service leave expenses, and other salary on-costs) totalled $299.2 million, an increase of $47.7 million against the allocated Budget for the Department and its agencies for 2002-03. The Department advised that additional staff appointments to combat the severe 2002-03 fire season impacted on employee costs during the year. In this regard, the Committee notes that 315 casual staff were employed by the Department during 2002-03.878

The Department provided the Committee with further information on employee related costs relating to departure packages, staff bonus payments, WorkCover premiums and stress-related claims:

- nine targeted separation packages were paid out at a total cost of $348,163. These costs were funded by the respective Output Group where the decision to retrench the employee was made;
- performance bonuses were paid to 111 or 4.2 per cent of staff across the Department at a total cost of $789,639. The

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875 Department of Sustainability and Environment, 2002-03 Annual Report, p.87
876 Ibid, p.92
877 Ibid, p.154
878 Department of Sustainability and Environment response, received 23 March 2004, to the Committee’s follow-up questions, p.1
879 Department of Sustainability and Environment response, received on 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.8-12
Committee noted that the distribution of bonus payments was concentrated at the higher staff levels with 41 executive officers receiving $484,555 or 61 per cent of total bonus payments. Non-executive bonus payments were also paid at the higher classification levels, VPS 4 ($115,805) and VPS 5 ($100,087). The Department advised that eligibility for non-executive staff bonus payments was assessed in accordance with departmental policy which rewards staff for major contributions that benefit the Department. Executive Officers and Principal Scientists are assessed annually in accordance with guidelines issued by the Department of Premier and Cabinet.

These guidelines allow for up to 20 per cent of an Executive Officer’s salary to be paid out in bonuses where performance targets have been achieved;

- WorkCover premiums paid by the Department and its agencies during 2002-03 amounted to approximately $6.3 million of which $4.6 million related to the Department;
- twenty nine stress related claims were processed by the Department and its agencies in 2002-03, including eight claims that were carried over from 2001-02. The total cost of claims was $461,662, with the Department accounting for 21 claims costing $369,304.

The Committee is pleased to note that staff bonus payments were distributed across all staffing categories during 2002-03. However, it is important that the Department review the reasons for the reduced numbers of staff that qualified for bonus payments at the lower classification levels and develop appropriate strategies to encourage and reward the contribution of staff at these levels.

12.1.4 Asset investment program

The asset investment projects of the Department for 2002-03 (excluding Growing Victoria Infrastructure Reserve projects) were budgeted at $43.6 million. Some of the larger investment projects that commenced during the year included Land Exchange (at a total estimated cost of $24 million), aimed at providing businesses with a single point of access to state and local government land information and transactions,880 the replacement of existing open channels of piping in the Wimmera-Mallee

880 Budget Paper No.2, 2002-03 Budget Statement, pp.205-206
region with a new piping system (subject to Commonwealth matching funding and confirmation of feasibility, and estimated to cost $76.8 million over four years)\textsuperscript{881}, and New Town Sewerage Schemes (at a total estimated cost of $22.5 million).\textsuperscript{882}

The Committee noted that actual expenditure on asset investment projects of $21.7 million was 50 per cent less than the allocated budget for 2002-03.\textsuperscript{883} Material variations in expenditure are outlined in Exhibit 12.4:

**Exhibit 12.4**

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002-03 Budget ($ '000)</td>
<td>2002-03 Actual ($ '000)</td>
<td>Variation (a) ($ '000)</td>
</tr>
<tr>
<td>Transit Cities</td>
<td>3 500</td>
<td>2 900</td>
<td>-600</td>
</tr>
<tr>
<td>Yarra Precinct – Sandridge Bridge</td>
<td>2 000</td>
<td>150</td>
<td>-1 850</td>
</tr>
<tr>
<td>Yarra Precinct – Queensbridge</td>
<td>1 500</td>
<td>15</td>
<td>-1 485</td>
</tr>
<tr>
<td>Land Exchange</td>
<td>11 200</td>
<td>4 192</td>
<td>-7 008</td>
</tr>
<tr>
<td>IT &amp; Document management centre</td>
<td>0</td>
<td>2 670</td>
<td>2 670</td>
</tr>
<tr>
<td>Piping the System</td>
<td>7 500</td>
<td>4 862</td>
<td>-2 638</td>
</tr>
<tr>
<td>New Town Sewerage Schemes</td>
<td>10 000</td>
<td>5 553</td>
<td>-4 447</td>
</tr>
<tr>
<td>Sunraysia Salt Interception Scheme</td>
<td>1 700</td>
<td>1 200</td>
<td>-500</td>
</tr>
<tr>
<td>Snowy Initiative- Casey’s Weir</td>
<td>6 000</td>
<td>0</td>
<td>-6 000</td>
</tr>
</tbody>
</table>

(a) A negative variance indicates the actual result for the particular line item was below budget

Variations in actual to Budget expenditure for asset investment projects were attributed to the following:\textsuperscript{884}

- **Transit Cities** – delays were experienced in the completion of structure plans for specific areas which resulted in rescheduling the commencement of additional infrastructure related studies;

- **Sandridge Bridge Project** – project works were conditional on a contribution by Melbourne City Council. Delays in obtaining Council approval for funding has pushed back timelines of the project which is now expected to be completed in December 2004;

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\textsuperscript{881} Ibid
\textsuperscript{882} Department of Sustainability and Environment response, received on 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.21
\textsuperscript{883} Ibid, p.21
\textsuperscript{884} Ibid, pp.22-23

404
• Queensbridge Square – project timelines were delayed pending resolution of funding issues which impacted on a number of milestones including those relating to acquisition of land;

• IT & Document management centre – the Department indicated that funding was allocated to the DSE Corporate program rather than to Land Victoria;

• Land Exchange – the project budget incorrectly assumed that the acquisition and development phase of the project could occur in 2002-03. These key activities are occurring in 2003-04;

• Piping the System – delays in on-ground activities resulted in actual expenditure being under budget during 2002-03. The amount under-expended has been approved to be carried over into 2003-04;

• New Town Sewerage – delays in contracts arising from a shortage of contractors with the ability to provide competitive and high quality tenders, led to underspending in this area. Funding is provided to Water Authorities upon finalisation and signing of contracts for approved schemes;

• Sunraysia Salt Interception Scheme – this project was negotiated to be undertaken and funded through the Murray Darling Basin Committee, funding was subsequently approved to be redirected to the Sunraysia Scheme. As funding negotiations and redirections were only finalised in January 2003, activities relating to the Sunraysia Scheme began at this point during the year, with a reallocation of unutilised funding to the subsequent year; and

• Casey’s Weir – delays in implementation resulted from impacts on local communities (augmented by drought concerns).

The Committee noted an upward Budget revision for one asset investment project (Vision for Port Phillip Bay Safe Havens (Queenscliff)) from $3 million to $5 million. This reflected an increase in government funding towards the project, following a reassessment by the Department of the amount of funding from the commercial investment component of the project.

885 Ibid, p.24
886 Department of Sustainability and Environment response, received on 23 February 2004, to the Committee’s follow-up questions, p.2
The Committee is concerned at the significant level of underspending of the Department’s asset investment budget during 2002-03 as a result of delays in the implementation of asset investment projects.

The Committee recommends that:

Recommendation 86: The Department of Sustainability and Environment identify and address the reasons for delays in the implementation of asset investment projects and assess the potential cost and funding implications to which the Department may be exposed as a consequence.

Growing Victoria Infrastructure Reserve

Three infrastructure projects were funded out of the Growing Victoria Infrastructure Reserve during 2002-03. (See Exhibit 12.5)

Exhibit 12.5

<table>
<thead>
<tr>
<th>Department of Sustainability and Environment</th>
<th>Growing Victoria Infrastructure Reserve Projects, 2002-03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Column 1</td>
<td>Column 2</td>
</tr>
<tr>
<td>2002-03 Planned Expenditure ($ million)</td>
<td>2002-03 Actual Expenditure ($ million)</td>
</tr>
<tr>
<td>Information technology document management centre</td>
<td>7.8</td>
</tr>
<tr>
<td>Land titles automation project</td>
<td>2.3</td>
</tr>
<tr>
<td>Regional telecommunications infrastructure</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Source: Department of Sustainability and Regional Development response, received on 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.26

The Committee was advised that the capital component of the land titles automation project was completed by 30 June 2003 and unspent funding was converted to output funding to facilitate ongoing payments for ICT facilities management.887

887 Department of Sustainability and Regional Development response, received on 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.26
12.2 Output group expenditure analysis

The Department was responsible for the delivery of a number of outputs across its six output groups. The Committee noted that significant variances in actual to budget expenditure were reported by the Department for three of its output groups. Further information is contained within Exhibit 12.6.\(^{888}\)

Exhibit 12.6

<table>
<thead>
<tr>
<th>Output Group</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002-03</td>
<td>2002-03</td>
<td>Variation</td>
</tr>
<tr>
<td></td>
<td>Budget(^{(a)})</td>
<td>Actual</td>
<td>((b))</td>
</tr>
<tr>
<td>Catchment and Water</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Catchment and water resource allocation and access</td>
<td>81.2</td>
<td>34.4</td>
<td>-46.8</td>
</tr>
<tr>
<td>Catchment information services</td>
<td>8.5</td>
<td>11.9</td>
<td>3.4</td>
</tr>
<tr>
<td>Community land and water management</td>
<td>158.1</td>
<td>149.9</td>
<td>-8.2</td>
</tr>
<tr>
<td>Total</td>
<td>247.8</td>
<td>196.2</td>
<td>-51.6</td>
</tr>
<tr>
<td>Conservation, Recreation and Public Land</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Biodiversity conservation, use and ecosystem services</td>
<td>18.5</td>
<td>23.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Nature and heritage recreation and tourism services</td>
<td>27.4</td>
<td>72.4</td>
<td>45.0</td>
</tr>
<tr>
<td>Public land management</td>
<td>24.4</td>
<td>26.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Services for management and governance of Victoria’s parks</td>
<td>140.4</td>
<td>148.4</td>
<td>8.0</td>
</tr>
<tr>
<td>Total</td>
<td>210.7</td>
<td>270.4</td>
<td>59.7</td>
</tr>
<tr>
<td>Forest and Fire Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fire operations</td>
<td>32.9</td>
<td>138.8</td>
<td>105.9</td>
</tr>
<tr>
<td>Fire prevention and planning</td>
<td>23.3</td>
<td>19.1</td>
<td>-4.2</td>
</tr>
<tr>
<td>Sustainable forest management services</td>
<td>69.8</td>
<td>87.8</td>
<td>18.0</td>
</tr>
<tr>
<td>Sustainable forest production and industry development</td>
<td>82.2</td>
<td>70.9</td>
<td>-11.3</td>
</tr>
<tr>
<td>Total</td>
<td>208.8</td>
<td>316.6</td>
<td>107.8</td>
</tr>
<tr>
<td>Land Information</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainable Policy and Programs(^{(b)})</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greenhouse policy services</td>
<td>32.3</td>
<td>29.9</td>
<td>-2.4</td>
</tr>
<tr>
<td>Metropolitan development strategies</td>
<td>0.0</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Regional and rural strategies</td>
<td>0.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Total</td>
<td>32.3</td>
<td>33.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Sustainable Cities and Regions(^{(c)})</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental strategies and initiatives</td>
<td>0.0</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Planning operations and environmental assessment</td>
<td>0.0</td>
<td>8.4</td>
<td>8.4</td>
</tr>
<tr>
<td>Planning system development</td>
<td>0.0</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Regional and urban amenity initiatives</td>
<td>0.0</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Total</td>
<td>0.0</td>
<td>16.2</td>
<td>16.2</td>
</tr>
</tbody>
</table>

\(^{888}\) Department of Sustainability and Environment, 2002-03 Annual Report, pp.22-73
Report on the 2002-03 Budget Outcomes

Notes: (a) 2002-03 budget incorporates adjustments for machinery of government changes for the period 1 January 2003 to 30 June 2003
(b) A negative variance indicates there is a Budget surplus for the particular line item
(c) Outputs transferred from the Department of Infrastructure following the machinery of government changes. Greenhouse policy services was previously included in the Energy and Greenhouse Policy Advice Output Group of the Department of Sustainability and Environment which transferred to the Department of Infrastructure.

Source: Department of Sustainability and Environment 2002-03 Annual Report, pp.23-73

The Department provided the following explanations for material variations identified in Exhibit 12.6:

- expenditure was below budget in the Catchment and Water output group due to delays in establishing the Snowy Joint Government Enterprise (SJGE) which was expected to become operational in December 2002. SJGE was established as a public company on 12 December 2003. The 2002-03 budget allocation for Victoria’s contribution to the enterprise was therefore carried forward into 2003-04;

- the State was ordered to pay $42.9 million as legal settlement to the Seal Rocks Sealife Centre following a decision in the Supreme Court in April 2003. In addition, the Department incurred legal costs and fees of $3.9 million in relation to the Seal Rocks Sea Life Centre during 2002-03. This resulted in a higher than expected expenditure outlay in the Conservation, Recreation and Public Land output group. Further information on the settlement and legal costs is provided at Section 12.4. Variances were also attributed to the re-allocation of corporate overheads as a consequence of the machinery of government changes;

- increased expenditure against target in the Forest and Fire Management Group was linked to the severity of the 2002-03 fire season. The Department advised that total expenditure for fire management activities amounted to $157.9 million, an increase of $101.7 million (or 181 per cent) against budget. A

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889 Department of Sustainability and Environment response, received on 23 February 2004, to the Committee’s follow-up questions, p.3
890 Department of Sustainability and Environment response, received 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.13
891 Ibid, p.43
892 Department of Sustainability and Environment, 2002-03 Annual Report, p.35
Treasure’s advance of $97.5 million was obtained to cover additional costs; and

- targets were not published for the Sustainability output groups due to the impacts of the machinery of government changes.

During 2002-03, the Department transferred $21.9 million of output funding to net assets to comply with changes in the accounting treatment for capital grants provided to water authorities. The Department also transferred $3.6 million in funding from net assets to outputs to more accurately reflect the nature of expenditure relating to the Land Exchange project and annual provisions for plant and equipment. Transfers of this nature are authorised under section 30 of the Financial Management Act 1994.

12.3 Performance information

The Department achieved 65 per cent of its published performance measures and targets during 2002-03. The impacts of the fire season and drought were cited by the Department as the main reasons for non-achievement of a number of performance targets especially in the areas of catchment and water, public land management and forest and fire management.

Other notable variances in actual performance against established targets are illustrated in Exhibit 12.7:

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893 Department of Sustainability and Environment response, received 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.45
894 Department of Sustainability and Environment response, received 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.33, Department of Sustainability and Environment response, received on 23 February 2004, to the Committee’s follow-up questions, p.3
895 Department of Sustainability and Environment, 2002-03 Annual Report, pp.22-73
The following reasons for variances in actual and target performance during 2002-03 were provided by the Department:\footnote{Department of Sustainability and Environment response, received 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.13-18}

- complex tax issues and consultations with the Federal and the South Australian Governments contributed to delays in the establishment of the Snowy Joint Government Enterprise;
- allocation of bulk water entitlements for the Yarra River Basin and the development of an infrastructure policy framework for water authorities were put on hold, following the proposals that were identified in the Green Paper ‘Securing our Water Future’, published in August 2003, and the need to ensure...
consistency with Government policy on water conservation and institutional arrangements for the water industry;

- second generation salinity management plans were not completed due to the substantial allocation of resources to address bushfires and drought emergencies;

- regional land care plans were not completed during 2002-03 due to the priority given to the regional catchment investment planning process;

- targets were not achieved by Victorian Landcare groups in relation to operating with an action plan due to the impacts of the bushfires and drought;

- delays in the completion and accreditation under the National Action Plan (NAP) for the six funded Catchment Management Authorities have taken longer than originally planned due to the complexity of community and consultation processes and the need to ensure that all regions met the agreed National Accreditation criteria;

- community perceptions of the management of major metropolitan parks and heritage assets by Parks Victoria was higher than targeted due to a change in the methodology used to establish this measure. Specifically, survey results only reflected opinions that were definite; and

- dry seasonal conditions in conjunction with the extreme bushfire and drought season were key factors impacting on the non-achievement of targets in the areas of fire operations and sustainable forest management services. The Department advised that work programs have been varied, where possible, to avoid peak fire season demands on staff.

An inquiry into the 2002-03 Victorian Bushfires, chaired by the Emergency Services Commissioner, was commissioned by the Government in April 2003. In relation to the prescribed burning program, the Inquiry identified that the weather is a major factor in determining whether or not prescribed burning will take place and to what extent it is likely to meet its objectives.897

897 Office of the Emergency Services Commissioner web site, accessed on 3 March 2004
The Inquiry further identified that the privatisation of the plantation forestry and cuts to budgets had been accompanied by a reduction in staff employed to manage fires. The number of departmental staff with responsibility for fire management had dropped from between 1500 to 2000 in the mid 1980s to about 250 permanent field-based staff in 2003. Planned burns for fuel reduction were also limited by the requirement to undertake regeneration burns in logging coupes as a priority, however such a limitation could be overcome with more crews and equipment, or if the requirement for regeneration burns decreased significantly (for example, through a reduction in annual area logged).\textsuperscript{898}

The Committee notes that all the recommendations of the Inquiry were accepted by the Government in October 2003.\textsuperscript{899}

It is critical that the Department act promptly in relation to the recommendations of the Inquiry to strengthen fire preventative and control measures and mitigate fire risks.

The Committee notes that the reallocation of resources to manage fire and drought conditions during 2002-03 has resulted in a number of programs and activities being carried over into 2003-04.

\textbf{12.3.1 Benchmarking of performance measures}

The Department is involved in a number of activities that will assist in developing common benchmarks and performance measures for the delivery of outputs. These activities encompass the application of principles developed by international and national counterparts, integrating results of best practice initiatives into programs and representing Victoria on key committees and jurisdictional bodies.

The Department advised that it benchmarks the condition of Victoria’s streams every five years using the Index of Stream Condition.

The Department also indicated that it will incorporate the principles for benchmarking in its Victorian Spatial Information Strategy for 2004-07 to ensure strategic alignment with Victoria’s economic, social and environmental needs. Performance measures for Heritage Conservation are also being developed on the basis of the Australian Heritage

\textsuperscript{898} Ibid
\textsuperscript{899} Ibid
Standards developed by the National Heritage Chairs and Officials Committee.  

The Committee encourages the use of benchmarking to evaluate performance and achieve continuous improvement in the delivery of outputs and services and the achievement of overall objectives. The Committee also notes that benchmarking can be more extensively applied in the development of performance measures and targets especially in the areas of land management.

The Committee recommends that:

**Recommendation 87:** Benchmarking techniques be more widely applied by the Department of Sustainability and Environment in developing performance measures and targets and to evaluate departmental performance in the delivery of programs, services and outputs.

### 12.4 Major initiatives

During 2002-03, funding of $44.7 million was provided for new output initiatives to be implemented by the Department. Funding was also provided for new asset investment initiatives to the value of $31.7 million. While the Department exceeded its allocated budget by $24.2 million in implementing new output initiatives, expenditure for new asset initiatives was 47.2 per cent below budget.

**New Direction for Sustainable Forestry** – This initiative is aimed at the sustainable management of State forests, by reducing licensed sawlog volumes to sustainable levels. Funding of $80 million has been provided over the next four years to assist affected industry participants, regional communities and individuals.

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900 Department of Sustainability and Environment response, received 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.17-18
902 Ibid, p.205
903 Department of Sustainability and Environment response, received 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.37-38
904 Budget Paper No.2, 2002-03 Budget Statement, p.201
During 2002-03 expenditure of $49.3 million was incurred for this initiative which represented an increase of 97.2 per cent or $24.3 million against budget.\footnote{Department of Sustainability and Environment response, received 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.37} A higher than expected industry take up of the licence reduction offer with payments totalling $22.8 million was largely responsible for the increased level of expenditure during 2002-03. Payments totalling $17.1 million were also made to contractors and workers affected by the licence reduction scheme.\footnote{Ibid, p.47} The Department advised that approval was received from the Treasurer to use unapplied output appropriations for the Snowy Initiative to fund forest restructure costs\footnote{Department of Sustainability and Environment response, received on 23 February 2004, to the Committee’s follow-up questions, p.6} and that these amounts would be reimbursed in 2003-04.\footnote{Department of Sustainability and Environment response, received 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.37-38}

The Committee noted that at 30 June 2003, 34 sawlog licences had been surrendered in full while two licences were partially surrendered. Licence surrenders represented in excess of 232,000 cubic metres or 94 per cent of the target reduction volume of 247,530 cubic metres expected over a period of four years to 2006-07.\footnote{Ibid, p.47} The management of logging in State forests was subject to an audit review by the Auditor-General in October 2003. The review covered the voluntary licence reduction program, worker assistance program and contractor assistance program and recommended that the Department continue to monitor the results of programs to ensure that outcomes are achieved. The need for greater clarity on the application and use of Contractor Assistance Program funding and eligibility for assistance was also highlighted.\footnote{Victorian Auditor General’s Office, Managing logging in State forest, October 2003, pp.3-6}

The Committee supports the recommendations of the Auditor-General and notes the achievement of a significantly greater reduction in sawlog volumes when compared to target. However the Committee is aware that targeted reductions in sawlog volumes have not been achieved in two forest management areas, namely Central Gippsland (51 per cent of the target reduction volume achieved) and Midlands (22 per cent of target reduction volume achieved).\footnote{Ibid, p.27} The Committee recognises that the established targets are set to be achieved over a four year period.
The Committee recommends that:

**Recommendation 88:** The effectiveness of the voluntary licence reduction program, workers assistance program and contractors assistance program in meeting their key objectives be discussed in the annual report of the Department of Sustainability and Environment.

**Recommendation 89:** The Department of Sustainability and Environment review its funding requirements under the Sustainable Forestry Program in view of the higher than expected level of licences that were surrendered in some forest management areas.

*Land Exchange* – This initiative will enable online access to state and local government land information and online processing for conveyancing, settlement and lodgement of land dealings.\(^9\)\(^{12}\)

Actual expenditure of $4.2 million was 62 per cent or $7 million below budget for 2002-03 due to extensive consultations with stakeholders and additional time spent on refining the complex business requirements and functional specifications of the system.\(^9\)\(^{13}\)

*Victorian Greenhouse Strategy* – Funding of $100 million was committed over three years to implement the *Victorian Greenhouse Strategy* (VGS) which contains 59 actions across 10 areas of activity. The strategy was launched in June 2002 and is aimed at achieving reductions in greenhouse gas emissions as well as addressing issues relating to climate change.\(^9\)\(^{14}\)

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912 Budget Paper No.2, 2002-03 Budget Statement, p.206, Department of Sustainability and Environment response, received 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.48
913 Department of Sustainability and Environment response, received on 23 February 2004, to the Committee’s follow-up questions, p.4
914 Department of Sustainability and Environment, 2002-03 Annual Report, p.57,
During 2002-03, $13.3 million was expensed against a budget of $22.8 million. The Department indicated that delays in finalising the Victorian Greenhouse Strategy resulted in the first year’s budget allocation (2001-02) of $11.5 million being carried over into 2002-03. Some programs relating to revegetation and tree planting were also delayed due to drought and bushfires experienced in 2002-03.915

The Committee was advised that despite the delays experienced in 2001-02, good progress has been made with regard to implementation of projects during 2002-03 and strong progress is anticipated in 2003-04.916

The first progress report highlighting the key achievements under the Victorian Greenhouse Strategy was published by the Department on 18 December 2003.917 The Committee noted that while the report detailed the actions that have commenced or are in progress under the Greenhouse Strategy it did not adequately identify whether key achievements were in line with established costs, targets or milestones. The Committee also noted that a number of programs under the Greenhouse Strategy commenced after 30 June 2003.

The Committee recommends that:

**Recommendation 90:** In addition to the disclosure of activities undertaken under the Victorian Greenhouse Strategy, the progress report include details of the costs incurred in implementing projects and the extent to which established targets and outcomes have been achieved.

**Seal Rocks Sea Life Centre** – In 2002-03, the Department paid $46.8 million918 in costs to settle disputes over various aspects of the contractual arrangements for the Seal Rocks development project. Settlement costs of $42.9 million, paid to Seal Rocks Victoria (Australia) Pty Ltd (SRVA), accounted for a major component of this expenditure.

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915 Department of Sustainability and Environment response, received 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.48-49
916 Ibid
917 Department of Sustainability and Environment response, received on 23 February 2004, to the Committee’s follow-up questions, p.7
918 Department of Sustainability and Environment response, received 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.43-44
Since July 2000, the Department has incurred total costs of $55.9 million in relation to this matter. The assets of SRVA were assumed by the Department in August 2002, and subsequently transferred to the Phillip Island Nature Park Board of Management. In August 2002, a large part of the Seal Rocks Sea Life Centre building sustained significant storm damage. Repairs to the building were undertaken and completed in April 2003, however, due to the detection of a building fault at the time of final inspection, the building has remained closed.

The Department advised the Committee that all public areas around the building are operating. In 2002-03, approximately $1 million was incurred by the Department on building repair costs and management expenses of the Seal Rocks Sea Life Centre.

The Department informed the Committee that the recommendations of a Taskforce appointed to advise on the future management of the Seal Rocks Sea Life Centre are currently being considered.

The Committee recommends that:

**Recommendation 91:** Urgent action be taken by the Department of Sustainability and Environment to resolve the future management and operation of the Seal Rocks Sea Life Centre.

*National Action Plan for Salinity and Water Quality* - A National Action Plan for Salinity and Water Quality (NAP) was endorsed in November 2000 to address salinity and water quality issues in some of Australia’s worst affected areas. The Plan which is a joint commitment of the Commonwealth, States and Territories, involves a funding package of $1.4 billion over seven years. Of the total NAP funding package, over $304 million is expected to be allocated towards salinity and water quality programs in Victoria over the seven year period.

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920 Ibid
921 Department of Sustainability and Environment response, received 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.43-44
922 Ibid, p.44
923 Ibid, p.44
In 2002-03, NAP funding of $35.9 million was provided to six catchment regions in Victoria, considered to be most affected by salinity and water quality issues. The Department advised the outcomes to be achieved by Catchment Management Authorities (CMA) under the NAP funding arrangement were developed around regional priorities in consultation with local communities and other stakeholders. Reports submitted by each Authority to the Department indicated that satisfactory performance against agreed targets had been achieved during 2002-03. The Department further indicated that independent audits conducted in each CMA during 2002-03, revealed the governance and project arrangements for NAP funding were sufficient to ensure satisfactory compliance with all agreed outcomes.\textsuperscript{925}

As salinity and water quality are two of the most significant issues affecting the economic development of the State, the Committee recommends that:

**Recommendation 92:** The Department of Sustainability and Environment:

(a) summarise in its annual report the key outcomes of projects funded under the National Action Plan for Salinity and Water Quality;

(b) establish performance measures and targets to evaluate the effectiveness of salinity and water quality programs in reducing, preventing or stabilising salinity levels and improving water quality; and

(c) publish in its annual report salinity and water quality performance measures and targets.

\textsuperscript{925} Department of Sustainability and Environment response, received 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.41-42
12.5 Environment Protection Authority (EPA)

The Environment Protection Authority (EPA) is a Statutory Authority responsible for the protection and enhancement of Victoria’s environment.

The 2002-03 budget provided funding of $54.3 million to the EPA to deliver agreed outputs. Actual expenditure during 2002-03 was within 10 per cent of budget at $60 million. The more significant areas of expenditure related to employee benefits ($24.3 million), supplies and services ($10.9 million) and grants ($11.3 million).

The Committee noted the EPA achieved most of its published performance targets for 2002-03. However, actual performance outcomes against targets are not disclosed in the annual reports of either the Department of Sustainability and Environment or the EPA.

The Committee recommends that:

Recommendation 93: To enhance accountability and transparency of information in relation to the delivery of outputs, actual performance outcomes against performance targets be disclosed in the annual report of either the Department of Sustainability and Environment or the Environment Protection Authority Victoria.

One of the major programs managed by the EPA is the three year Stormwater Action Program which commenced in 2000-01 with a total funding commitment of $22.5 million. Under this program, stormwater action grants are provided to councils to develop and implement comprehensive stormwater management implementation plans.

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926 Budget Paper No 3, 2003-04 Budget Estimates, p.310
927 EPA Victoria, 2002-03 Annual Report, p.39
928 Department of Sustainability and Environment response, received 7 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.52-54
929 EPA Victoria, 2002-03 Annual Report, p.34
Over the three year period, stormwater grants of $20.1 million have been paid out by the EPA. The Committee found it difficult to gauge the effectiveness of the stormwater program as there is limited information in the Authority’s annual report on the key achievements and outcomes of the program.

The Committee acknowledges that some of the projects under the Stormwater Program will only be completed over the next 12 months at which time a comprehensive review of the effectiveness of the Program would be beneficial. The Committee however encourage disclosures within the annual report of the EPA on the progress of key projects under the Stormwater Program, given the significant level of funding that has been committed by the Government.

The Committee recommends that:

Recommendation 94: Disclosures within the annual report of the Environment Protection Authority Victoria be strengthened to include progress on key projects and outcomes under the Stormwater Action Program.

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930 EPA Victoria, 2002-03 Annual Report, p.54, EPA Victoria, 2001-02 Annual Report, p.82
Chapter 13: Department of Treasury and Finance

Key Findings of the Committee:

13.1 The total Budget of the Department of Treasury and Finance, adjusted for the machinery of government changes, was $272.6 million in 2002-03. Actual expenditure for the year was $307.7 million, $35.1 million or 12.9 per cent over Budget.

13.2 The operating result of the Department of Treasury and Finance was a deficit of $82.7 million in 2002-03, compared to a budgeted operating surplus of $17.3 million. The operating deficit for 2002–03 was due mainly to one-off adjustments arising from the review of procedures for the accounting of the whole of government leased motor vehicle fleet and a provision for lease payments on unused leased office space at Transport House, in accordance with the requirements of a new accounting standard.

13.3 The budgeted expenditure for the resource management services output group was $18.9 million lower than Budget due mainly to the exemption of the whole of government leased motor vehicle fleet from the capital asset charge.

13.4 The Department of Treasury and Finance met most of its performance targets for 2002-03.

13.5 Performance bonus payments totalling $654,100 were paid to executive officers of the Department of Treasury and Finance. More than 80 per cent of executive officers received performance bonuses.

13.6 The Department of Treasury and Finance did not disclose the details of a consultancy with a total cost of $295,000 in its 2002–03 annual report as required by the guidelines issued by the Minister for Finance.

13.7 The terms of the whole of government leased motor vehicle fleet agreement required the State to make up the shortfall in the proceeds of the sale of the vehicles, compared to the agreed residual values on which the lease rentals were based. As at 30 June 2003, the accumulated shortfall totalled $57.5 million.
Key findings of the Committee (continued):

13.8 The review of procedures for the accounting of the whole of government leased motor vehicles resulted in a book loss of $53.2 million. This comprised a loss of $23.8 million as a result of adjustments to the lease liability and the leased motor vehicle asset values, and to lease interest and amortisation charges; and the correction to the accounting for the disposal of motor vehicles which resulted in a loss on disposal of $29.4 million.

13.9 The Latrobe Regional Hospital public private partnership arrangement was unwound in 2002–03. As part of the unwinding arrangements, the State agreed to pay out the debt raised to finance the construction of the hospital. The Latrobe Regional Hospital Pty Ltd, which had been acquired by the Government, paid out this debt in full in September 2002, at the net market value of $44.4 million.

During 2002–03, the Department of Treasury and Finance supported the portfolios of Treasury, Finance, and WorkCover. As a result of the machinery of government changes in December 2002, the Department’s responsibility for the gaming portfolio was assumed by the Department of Justice.931

13.1 Financial statement analysis

The Department’s financial statements include the Essential Services Commission and the Victorian Casino and Gaming Authority (for the period 1 July 2002 to 31 December 2002).932

The Department reported an operating loss of $82.7 million in 2002–03, compared to a projected operating surplus of $17.3 million (see Exhibit 13.1). The operating loss was due mainly to one-off adjustments arising from the review of procedures for the accounting of the whole of government leased motor vehicle fleet and a provision for lease payments on unused leased office space at Transport House, in accordance with the requirements of a new accounting standard.

931 Department of Treasury and Finance, 2002–03 Annual Report, p.18
932 Ibid, p.93

422
The Department advised that it received an advance from the Treasurer of $7.2 million to pay the Transport House lease commitment in 2002–03.\footnote{Department of Treasury and Finance response, received 24 December 2003, to the Committee’s 2002–03 Budget outcomes questionnaire, p.20}

**Exhibit 13.1**

Department of Treasury and Finance  
Statement of Financial Performance 2002—03

<table>
<thead>
<tr>
<th>Revenue from ordinary activities</th>
<th>2002-03 Adjusted Budget (a) ($ million)</th>
<th>2002-03 Actual (b) ($ million)</th>
<th>Variation (c) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output appropriations</td>
<td>193.9</td>
<td>181.2</td>
<td>-12.7</td>
</tr>
<tr>
<td>Special appropriations</td>
<td>8.1</td>
<td>8.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Other revenue and revenue from other parties (d)</td>
<td>53.2</td>
<td>35.7</td>
<td>-17.5</td>
</tr>
<tr>
<td>Total revenue</td>
<td>255.2</td>
<td>225.0</td>
<td>-30.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses from ordinary activities</th>
<th>2002-03 Adjusted Budget (a) ($ million)</th>
<th>2002-03 Actual (b) ($ million)</th>
<th>Variation (c) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee benefits</td>
<td>74.1</td>
<td>74.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>74.6</td>
<td>68.3</td>
<td>-6.3</td>
</tr>
<tr>
<td>Grants and other payments</td>
<td>7.6</td>
<td>5.7</td>
<td>-1.9</td>
</tr>
<tr>
<td>Capital asset charge</td>
<td>34.0</td>
<td>16.5</td>
<td>-17.5</td>
</tr>
<tr>
<td>Supplies and services</td>
<td>68.9</td>
<td>123.0</td>
<td>54.1</td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>13.4</td>
<td>19.3</td>
<td>5.9</td>
</tr>
<tr>
<td>Total expenses</td>
<td>272.6</td>
<td>307.7</td>
<td>35.1</td>
</tr>
<tr>
<td>Result from ordinary activities</td>
<td>17.3</td>
<td>-82.7</td>
<td>-100.0</td>
</tr>
</tbody>
</table>

Notes:  
(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003  
(b) Includes total controlled revenue of $705,000 and total controlled expenses of $654,000 for the gaming portfolio, for the period 1 July 2002 to 31 December 2002  
(c) A negative variance indicates there is a Budget surplus for the particular line item  
(d) Included in this category were two expense items: a loss from the disposal of physical assets; and a payment from the Department’s trust account to the Consolidated Fund\footnote{Ibid, p.3}  
Some totals may not add up due to rounding.

Sources: Budget Paper No. 3, 2003-04 Budget Estimates, p.380; Department of Treasury and Finance, 2002-03 Annual Report, pp.86 and 93

The Department advised that the major reasons for the variations between the adjusted budget and actual results, for revenue and expenses were:

- output appropriations – the decrease of $12.7 million was attributed mainly to $16.3 million of budgeted funding for the capital asset charge which was not required by the Department.
Accordingly, the capital asset charge expense was also lower by a corresponding amount.\textsuperscript{935}

- other revenue and revenue from other parties – the decrease from the adjusted budget of $17.5 million was due mainly to:\textsuperscript{936, 937}
  
  - an additional loss ($11.6 million) from the disposal of leased motor vehicles following a review during 2002–03 of procedures for the accounting of the whole of government leased motor vehicle fleet. Further information is in Section 13.4.1; and
  
  - a payment of $10.8 million from the trust account - Government Owned Rental Accommodation Trust – to the Consolidated Fund;

- grants and other payments – the lower than budgeted funding of $1.5 million to the Victorian WorkCover Authority was offset by a corresponding increase in the Authority’s licensing fees revenue charged on hazardous sites;\textsuperscript{938}

- supplies and services – the variance was due mainly to one-off items which were not budgeted:\textsuperscript{939}
  
  - a net loss of $23.8 million arising mainly from adjustments to the value of the leased motor vehicle assets and its related lease liability, as a result of the review of procedures for the accounting of the whole of government leased motor vehicle fleet. Further information is in Section 13.4.1;
  
  - a loss of $9.6 million is attributed to the under-recovery of the residual values of the whole of government leased motor vehicles. Further information is in Section 13.4.1; and
  
  - a provision ($13 million) for lease payments on unused leased office space at Transport House.\textsuperscript{940} This was in...
accordance with the requirements of a new accounting standard, which requires that estimated losses expected to arise under an onerous contract be recognised.941

The lease with Transport House was originally with the Public Transport Corporation (PTC).942 To facilitate the wind-up of the PTC, the Department of Treasury and Finance assumed the lease obligations for Transport House on 1 August 2002.943

- borrowing costs – the increase of $5.9 million was due to the recognition of the finance lease interest of the whole of government leased motor vehicle fleet.944

At 30 June 2003, the Department controlled assets valued at $581.7 million, a decrease of $9.1 million from the 2002–03 adjusted Budget (see Exhibit 13.2). The Department’s total liability at 30 June 2003 was $331.4 million, an increase of $68.8 million (or 26.2 per cent) from the adjusted Budget. This was due mainly to an increase in the finance lease liability associated with the whole of government leased motor vehicle fleet.

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941 Department of Treasury and Finance, 2002–03 Annual Report, p.42
942 Mr P. Carroll, Director Property Group, Department of Treasury and Finance, 2003–04 Budget Estimates, transcript of evidence, 15 May 2003, p.160
944 Department of Treasury and Finance response, received 24 December 2003, to the Committee’s Budget outcomes questionnaire, p.2
Report on the 2002-03 Budget Outcomes

Exhibit 13.2

Department of Treasury and Finance
Statement of Financial Position 2002—03

<table>
<thead>
<tr>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002-03 Adjusted Budget (a) ($ million)</td>
<td>2002-03 Actual ($ million)</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>-264.4</td>
<td>-9.0</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Receivables</td>
<td>4.9</td>
<td>5.6</td>
</tr>
<tr>
<td>Inventories</td>
<td>24.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Prepayments</td>
<td>1.0</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>-234.1</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>411.6</td>
<td>132.3</td>
</tr>
<tr>
<td>Inventories</td>
<td>27.6</td>
<td>26.8</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>361.7</td>
<td>395.9</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>5.1</td>
<td>8.6</td>
</tr>
<tr>
<td>Other</td>
<td>18.9</td>
<td>18.0</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>824.9</td>
<td>581.6</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>590.8</td>
<td>581.7</td>
</tr>
</tbody>
</table>

| Current liabilities | | |
| Payables | 18.3 | 13.8 | -4.5 |
| Interest bearing liabilities | 102.4 | 106.6 | 4.2 |
| Provisions | 8.2 | 9.1 | 0.9 |
| Other | 15.7 | 24.0 | 8.3 |
| **Total current liabilities** | 144.6 | 153.5 | 8.9 |

| Non-current liabilities | | |
| Interest bearing liabilities | 104.6 | 162.4 | 57.8 |
| Provisions | 13.4 | 9.9 | -3.5 |
| Other | 0.0 | 5.6 | 5.6 |
| **Total non-current liabilities** | 118.0 | 177.9 | 59.9 |
| **Total liabilities** | 262.6 | 331.4 | 68.8 |
| **Net assets** | 328.2 | 250.3 | -77.9 |

Notes:  
(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003  
(b) A negative variance indicates the actual result for the particular line item was below Adjusted Budget  
Sources: 2003-04 Budget Paper No. 3, Budget Estimates, p.381; Department of Treasury and Finance, Annual Report 2002-03, p.94
The Department provided the following explanations for the variations between the adjusted Budget and actual results in 2002–03 for assets and liabilities:945

- cash assets – the decrease was attributed mainly to funding received in July 2002 for a superannuation contribution payment of $250 million which was drawn on 30 June 2002 (the previous financial year);

- receivables (current assets) – the increase from budget of $700,000 was due mainly to the higher than anticipated goods and services tax (GST) recoverable from the Australian Taxation Office;

- inventories (current assets) – the decrease of $21.6 million was due to the transfer of completed works to other Departments and Agencies. The Department advised that the $21.6 million consisted of $12.4 million for land and other assets held for resale and $9.2 million assets provided free of charge;946

- receivables (non-current assets) – the decrease from Budget reflected the drawdown on the State Administration Unit to fund the $250 million superannuation contribution payment;

- intangible assets – the State Revenue Office purchased from the Victorian municipalities land valuation data for its land tax assessments.947 The purchase cost of the land valuation data was recognised as an asset and written down over a two year period because of its limited useful life.948 The Department advised that the timing of the purchase of the valuation data was later than expected and this increased the intangible asset value by $3.5 million;949

- payables (current liabilities) – the decrease of $4.5 million from Budget was attributed to lower than expected outstanding invoices;

945 Ibid, p.4-5
946 Department of Treasury and Finance response, received 22 March 2004, to the Committee’s follow-up questions
947 State Revenue Office, 2002–03 Annual Review, pp.9 and 32
948 Ibid, p.32
949 Department of Treasury and Finance response, received 24 December 2003, to the Committee’s Budget outcomes questionnaire, p.5
provisions (current liabilities) – this provision was associated with employee benefits. The increase of $900,000 was due mainly to:

- an increase in the recreation leave liability; and
- the effect of a revised accounting standard which requires employee benefits to be calculated using remuneration rates that the Department expects to pay at a future date at the time when the benefits become payable;

other (current liabilities) – the increase of $8.3 million reflected a higher than predicted goods and services tax (GST) payable to the Australian Taxation Office;

interest bearing liabilities (non-current liabilities) – the increase of $57.8 million was attributed mainly to the finance lease liability associated with the whole of government leased motor vehicle fleet. Further information is in Section 13.4.1;

provisions (non-current liabilities) – this provision was associated with employee benefits. The decrease of $3.5 million is due mainly to:

- the transfer of employees and the associated employee benefits following the transfer of the Office of Gambling Regulations and Gambling Research Panel from the Department of Treasury and Finance, to the Department of Justice as part of the machinery of government changes; and
- a change to the prescribed inflation rate used in the calculation of the long service leave liability. The decrease in the rate used in the calculation, from 6.4 per cent to 4.75 per cent reduced the provision.

13.1.1 Administered items statement

In 2002-03 the Department reported an administered loss of $115.2 million, compared to a budgeted administered surplus of $77.9 million (see Exhibit 13.3).
The Department received an advance issued under section 35 of the Financial Management Act 1994 of $44.4 million. The Department advised that this advance was provided to Latrobe Regional Hospital Pty Ltd (LRH) to pay out the bond debt issued by the LRH. This followed the State acquiring ownership of LRH, and thus the Latrobe Regional Hospital and the associated bond debt, in the process of unwinding the public–private partnership arrangement. Further information on the Latrobe Regional Hospital is in section 13.4.2.

At 30 June 2003 the administered assets were $748.8 million which was $441.8 million lower than budgeted (see Exhibit 13.3). The decrease was due to the transfer of the Federation Square from the Department to a State-owned entity in 2002–03. Administered liabilities were $19,146.7 million, an increase of $158.8 million from Budget. The increase was attributed to an overpayment of grants by the Commonwealth Government to the State.

The Committee noted various discrepancies in the Budget Portfolio Outcomes Administered Items Statement published in the Department’s 2002–03 annual report. These discrepancies related to:

- total administered expenses – the actual figure was $19,827.9 million (see Exhibit 13.3), compared to the Department’s annual report ($19,833.1 million);
- revenue less expenses – the actual figure was –$115.2 million (see Exhibit 13.3), compared to the Department’s annual report (–$115.9 million); and
- total administered liabilities – the actual figure was $19,146.7 million (see Exhibit 13.3), compared to the Department’s annual report ($19,151.9 million).

The Committee is aware that the Budget Portfolio Outcomes Statement is not required to be audited. Nevertheless, the Committee is surprised that these errors had not been corrected by the Department prior to the tabling of its annual report.

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953 Department of Treasury and Finance response, received 24 December 2003, to the Committee’s Budget outcomes questionnaire, p.20
954 Ibid, p.20
955 Department of Treasury and Finance, 2002–03 Annual Report, p.96
956 Ibid
957 Ibid
## Exhibit 13.3

### Department of Treasury and Finance

**Administered Items Statement 2002—03**

### Notes:

(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003

(b) A negative variance indicates the actual result for the particular line item was below Adjusted Budget

<table>
<thead>
<tr>
<th></th>
<th>2002-03 Adjusted Budget (a) ($ million)</th>
<th>2002-03 Actual ($ million)</th>
<th>Variation (b) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Administered revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriations – payments on behalf of the State (c)</td>
<td>900.8</td>
<td>855.2</td>
<td>-45.6</td>
</tr>
<tr>
<td>Special appropriations</td>
<td>926.2</td>
<td>1 740.0</td>
<td>813.8</td>
</tr>
<tr>
<td>Sale of goods and services</td>
<td>5.6</td>
<td>5.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Commonwealth grants</td>
<td>6 778.1</td>
<td>6 805.7</td>
<td>27.6</td>
</tr>
<tr>
<td>Other grants</td>
<td>0.5</td>
<td>0.2</td>
<td>-0.3</td>
</tr>
<tr>
<td>Taxes</td>
<td>7 071.8</td>
<td>7 534.7</td>
<td>462.9</td>
</tr>
<tr>
<td>Fees</td>
<td>15.3</td>
<td>13.0</td>
<td>-2.3</td>
</tr>
<tr>
<td>Other</td>
<td>2 650.8</td>
<td>2 758.2</td>
<td>107.4</td>
</tr>
<tr>
<td><strong>Total administered revenue</strong></td>
<td>18 349.1</td>
<td>19 712.7</td>
<td>1 363.6</td>
</tr>
<tr>
<td><strong>Administered expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses on behalf of the State (d)</td>
<td>574.9</td>
<td>629.4</td>
<td>54.5</td>
</tr>
<tr>
<td>Superannuation</td>
<td>844.5</td>
<td>1 637.9</td>
<td>793.4</td>
</tr>
<tr>
<td>Grants and other payments</td>
<td>316.9</td>
<td>333.0</td>
<td>16.1</td>
</tr>
<tr>
<td>Payments into the Consolidated Fund</td>
<td>16 534.9</td>
<td>17 227.6</td>
<td>692.7</td>
</tr>
<tr>
<td><strong>Total administered expenses</strong></td>
<td>18 271.2</td>
<td>19 827.9</td>
<td>1 556.7</td>
</tr>
<tr>
<td><strong>Revenue less expenses (f)</strong></td>
<td>77.9</td>
<td>-115.2</td>
<td>-193.1</td>
</tr>
<tr>
<td><strong>Administered assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>804.5</td>
<td>20.4</td>
<td>-784.1</td>
</tr>
<tr>
<td>Receivables</td>
<td>-1 935.5</td>
<td>-1 857.4</td>
<td>78.1</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>1 901.1</td>
<td>2 585.8</td>
<td>684.7</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>420.6</td>
<td>0.0</td>
<td>-420.6</td>
</tr>
<tr>
<td><strong>Total administered assets</strong></td>
<td>1 190.6</td>
<td>748.8</td>
<td>-441.8</td>
</tr>
<tr>
<td><strong>Administered liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>50.2</td>
<td>34.6</td>
<td>-15.6</td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
<td>5 833.7</td>
<td>5 833.2</td>
<td>-0.5</td>
</tr>
<tr>
<td>Provisions</td>
<td>34.5</td>
<td>0.0</td>
<td>-34.5</td>
</tr>
<tr>
<td>Superannuation</td>
<td>12 906.9</td>
<td>12 965.1</td>
<td>58.2</td>
</tr>
<tr>
<td>Amounts owing to other departments</td>
<td>-0.2</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Other</td>
<td>162.9</td>
<td>313.8</td>
<td>150.9</td>
</tr>
<tr>
<td><strong>Total administered liabilities</strong> (g)</td>
<td>18 987.9</td>
<td>19 146.7</td>
<td>158.8</td>
</tr>
</tbody>
</table>

Notes:

(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003

(b) A negative variance indicates the actual result for the particular line item was below Adjusted Budget
(c) This figure is different from the appropriation figure in the Budget Papers of $1,523.3 million. The figure in the Budget Paper comprises two components: an appropriation to the Department of $900.8 million; and the Advance to Treasurer (Treasurer’s Advance) of $622.5 million. The figure in the above table reflects the Department’s budgeted appropriation component.

(d) This figure is different from the expenses figure in the Budget Papers of $1,197.4 million. The figure in the Budget Paper consists of two components: the Department’s budgeted expenses on behalf of the State; and the budgeted payment from the Treasurer’s Advance of $622.5 million. The figure in the above table reflects the Department’s budgeted expense component.

(e) The actual administered expenses figure in this table of $19,827.9 million is different from the figure published in the Department’s 2002–03 annual report, which was $19,833.1 million.

(f) The actual revenue less expenses figure in this table of —$115.2 million is different from the figure published in the Department’s 2002–03 annual report, which was —$115.9 million.

(g) The actual total administered liabilities figure in this table of $19,146.7 million is different from the figure published in the Department’s 2002–03 annual report, which was $19,151.9 million.

Sources: 2003-04 Budget Paper No. 3, Budget Estimates, p.383; Department of Treasury and Finance, 2002-03 Annual Report, p.96

The Department provided the following explanations for the variations between the adjusted Budget and actual results for administered revenue and expenses in 2002–03:

- appropriations (payment made on behalf of the State) – the decrease of $45.6 million was attributed to the Department under-claiming its appropriation revenue because several expense items such as interest and finance charges were lower;

- special appropriation – the increase of $813.8 million was due mainly to additional funding which was provided to the Department to fund the increase in superannuation expense during the year;

- taxes – the increase of $462.9 million was mainly attributed to:

  - increased revenue from taxes on property were $570 million more than Budget due to the continued strength of the property market; and
- lower than expected revenue from payroll tax which was $94 million less than budgeted. The decrease reflected the trend in employment growth which was relatively stronger in small firms that remained below the tax threshold and hence were not subjected to payroll tax;\(^{965}\)

- fees – the decrease of $2.3 million was due to the transfer of the gambling supervision and control charges to the Department of Justice under machinery of government changes;

- expenses on behalf of the State – the Department advised that its actual expense was $70.4 million higher than Budget due to greater than anticipated demand for the State First Home Owner Grant. The Department was requested to clarify this matter but no response was received by the time this report was finalised. The Committee intends to follow up this issue in its review of the 2004–05 Budget Estimates;

- superannuation expenses – the increase of $793.4 million was due mainly to lower than expected investment returns on superannuation fund assets during the year. This was caused by subdued equity markets and a higher than assumed CPI.

The Department provided the following explanations for the variation between the adjusted Budget and actual results for administered assets and liabilities in 2002–03:\(^{966}\)

- cash assets – the reduction of $784.1 million largely reflected the payment of a $750 million superannuation contribution;

- other financial assets – the Department invests mainly in fixed interest securities and bonds.\(^ {967}\) The variance of $684.7 million was attributed to an increase in the value of investments, attributable to investment income and realised gains. The Department advised that while investment income can be reasonably estimated, realised gains cannot be estimated as it depends on the type of securities traded and the volatility of the investment market. The Department was requested to provide further information about this matter but no response was

\(^{965}\) Department of Treasury and Finance response, received 24 December 2003, to the Committee’s Budget outcomes questionnaire, p.7

\(^{966}\) Ibid

received by the time this report was finalised. The Committee intends to follow up this issue in its review of the 2004–05 Budget Estimates.  

- property, plant and equipment – the reduction was due to the transfer of the deemed value of the Federation Square project from the Department to a State-owned entity;

- payables – the decrease of $15.6 million is attributed mainly to lower than expected borrowing costs as a result of lower than anticipated overnight borrowings, and lower than predicted finance costs;

- provisions – the decrease of $34.5 million was attributed mainly to an estimate for long service leave provision of $34.4 million which the Department advised was budgeted as part of the Treasurer’s Advance. The Department also advised that as this long service leave provision was for the whole of government, it would record the estimates in its Budget, but the actual advances to the Departments were recorded by the Departments; and

- other – the increase in liabilities of $150.9 million was mainly attributed to:
  - the overpayment of the general purpose grants by the Commonwealth Government to the State of $134.4 million; and
  - lower than budgeted payment of $13.5 million from monies set aside for land remediation.

### 13.1.2 Performance bonuses

The Committee requested information on the amount of performance bonus payments made in 2002–03. Total bonuses of $654,100 were
paid to around 65 executive officers. The Committee noted that more than 80 per cent of executive officers on each executive officer classification received a bonus payment: 84.3 per cent for the EO3 classification; 88.2 per cent for the EO2 classification and 100 per cent for the EO1 classification.

The Committee is surprised at the high percentage of executive officers receiving bonuses as government policy states bonuses are awarded only for performance exceeding the requirements of an executive position. All executive positions demand a high level of performance commensurate with remuneration levels.

13.1.3 Consultancy expenses

The Committee noted that the Department commissioned 35 consultancies in 2002-03 at a total cost of $825,409. The Department stated that no single consultancy exceeded a cost of $100,000.

In reviewing the 2002-03 Budget outcomes for the Department of Human Services, the Committee noted the Department of Treasury and Finance was responsible – as the entity that engaged and managed the consultancy – for disclosing the details of a consultancy costing $296,178 (including GST) that was partly funded by the Department of Human Services (see Chapter 6).

Although the Department of Treasury and Finance’s contribution to the consultancy did not exceed the threshold requiring disclosure, it did have responsibility under the directions of the Minister for Finance to disclose details of the consultancy in its annual report.

The Committee believes the directions of the Minister for Finance should be revised to remove ambiguities about which Department or Departments are required to disclose details of consultancies, which are jointly funded, and valued at more than $100,000. The Committee has made several recommendations relating to this matter in Chapter 6 of this report.

\[971 \text{ Calculated by the Committee based on the number of executive officers for the Department of Treasury and Finance (including the State Revenue Office) as disclosed in the Department’s 2002-03 Annual Report on pages 97 and 98, for the year 2002.}\]
\[972 \text{ Ibid} \]
\[973 \text{ Department of Premier and Cabinet, Executive Employment Handbook,} \]
\[974 \text{ Department of Treasury and Finance, 2002-03 Annual Report, p.101} \]
\[975 \text{ Ibid} \]
13.1.4 Trust accounts

The Department controlled or administered 11 trust accounts which totalled $15.3 million at 30 June 2003. The majority of funds were in the administered trust accounts: the State Government Vehicle Pool Working Account ($6.6 million); the Victorian Natural Disaster Relief Trust ($5.8 million) and the Security Account ($5.3 million).

The Department advised that due to the machinery of government changes its Gambling Research Panel Trust Account was transferred to the Department of Justice.

The Committee noted that details of trust account activities were not disclosed in the financial report of the Department. The Committee recommends that:

**Recommendation 95:** The financial report of the Department of Treasury and Finance include additional disclosures of:

(a) new departmental trust accounts and their purpose;
(b) departmental trust accounts that were closed during the year; and
(c) transactions and balances of departmental trust accounts.

**Recommendation 96:** The financial report of the State of Victoria include additional disclosures of:

(a) new trust accounts and their purpose; and
(b) trust accounts that were closed during the year.

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976 Department of Treasury and Finance response, received 24 December 2003, to the Committee’s Budget outcomes questionnaire, p.19
977 Ibid
978 Department of Treasury and Finance response, received 5 March 2004, to the Committee’s follow-up questions
The relevance and appropriateness of trust accounts was also raised by the Auditor-General. The Auditor-General’s review identified instances where trust accounts established under the previous cash appropriation framework may be adequately managed within the current framework, without the need to operate separate trust accounts.980

The Committee recommends that:

**Recommendation 97:** The Department of Treasury and Finance in its role as central agency, conduct regular assessments of the operations of all Departments’ trust accounts to ensure they remain relevant and appropriate in the context of the current financial management and accountability framework.

### 13.2 Output group expenditure analysis

Excluding the funding for the gaming portfolio, the estimated funding for the Department in 2002–03 was $201.5 million (see Exhibit 13.4). Actual expenditure in 2002–03 was $179.5 million, or $22 million lower than Budget.

**Exhibit 13.4**

<table>
<thead>
<tr>
<th>Output group</th>
<th>2002-03 Adjusted Budget (a) ($ million)</th>
<th>2002-03 Actual (a) ($ million)</th>
<th>Variance (b) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic policy advice</td>
<td>25.4</td>
<td>24.9</td>
<td>-0.5</td>
</tr>
<tr>
<td>Financial management services</td>
<td>18.8</td>
<td>18.3</td>
<td>-0.5</td>
</tr>
<tr>
<td>Risk management services</td>
<td>9.7</td>
<td>9.3</td>
<td>-0.4</td>
</tr>
<tr>
<td>Reform services</td>
<td>2.2</td>
<td>2.2</td>
<td>0</td>
</tr>
<tr>
<td>Resource management services</td>
<td>64.2</td>
<td>45.3</td>
<td>-18.9</td>
</tr>
<tr>
<td>Regulatory services</td>
<td>18.4</td>
<td>17.0</td>
<td>-1.4</td>
</tr>
<tr>
<td>Revenue management services</td>
<td>62.8</td>
<td>62.5</td>
<td>-0.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>201.5</strong></td>
<td><strong>179.5</strong></td>
<td><strong>-22.0</strong></td>
</tr>
</tbody>
</table>

Notes: (a) Excludes the funding for the gaming outputs that were transferred to the Department of Justice as part of the machinery of government changes
(b) A negative variance indicates there is a budget surplus for the particular line item

Source: Department of Treasury and Finance, 2002-03 Annual Report, pp.19-41

980 Ibid, pp.78-79
The decrease between the actual and budgeted expenditure of $18.9 million for the resource management services output group was mainly attributed to budgeted expenditure which was no longer required. During 2002–03 the Department was exempted from paying the capital asset charge on its whole of government leased motor vehicle fleet. The amount exempted was $16.3 million.981

The Department advised that the capital asset charge was an opportunity cost charge levied on the written–down value of non–current physical assets controlled by Departments. As a leased asset, the whole of government motor vehicle fleet incurs interest costs and it was considered that imposing a capital asset charge in addition to the lease interest was ‘doubling up’.982

13.3 Performance information

The Committee noted the Department and its agencies, the Essential Services Commission and the State Revenue Office, had largely achieved the performance targets for most performance measures. Some of the more notable variances in performance targets to actual results are outlined in Exhibit 13.5.

981 Department of Treasury and Finance response, received 4 February 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.4

982 Department of Treasury and Finance response, received 5 March 2004, to the Committee’s follow-up questions
Exhibit 13.5

Department of Treasury and Finance
Selected performance measures 2002—03

<table>
<thead>
<tr>
<th>Performance measure</th>
<th>Unit of measure</th>
<th>2002-03 Target</th>
<th>2002-03 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic, regulatory, environmental and social policy advice</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic policy briefings on Cabinet submissions</td>
<td>Number</td>
<td>160</td>
<td>225</td>
</tr>
<tr>
<td><strong>Taxation (State Revenue) monitoring and forecasting services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accuracy of estimating State taxation revenue (Budget to Annual Financial Report)</td>
<td>Per cent</td>
<td>Within 5 per cent</td>
<td>6.2</td>
</tr>
<tr>
<td><strong>Infrastructure project management</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review of existing public-private partnership (and other) contracts for both service performance and fiscal management</td>
<td>Number</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td><strong>Commercial project and risk management</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resolution of residual gas interests</td>
<td>Number</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Termination of structured finance transactions, removing or minimising contingent liabilities of the State in a cost-effective manner</td>
<td>Number</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Resource management reform</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major policy reviews and refinements</td>
<td>Number</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td><strong>Government accommodation services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Client department’s satisfaction with office accommodation services</td>
<td>Per cent</td>
<td>80</td>
<td>70</td>
</tr>
<tr>
<td><strong>Management of motor vehicle leases</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Departmental clients satisfied with fleet financing arrangements</td>
<td>Per cent</td>
<td>75</td>
<td>48</td>
</tr>
</tbody>
</table>

Source: Department of Treasury and Finance, 2002-03 Annual Report, pp.23, 29, 33, 34, 36, 38 and 39

The Department advised the Committee of the following reasons for the variations to target measures:

- economic policy briefings on Cabinet submissions — the number of briefings for 2002–03 was higher than anticipated due primarily to an exceptionally busy September quarter. The Department attributes the increase in activity to the Spring 2002 large legislative program;\(^{983}\)

- accuracy of estimating State taxation revenue (budget to annual financial report) — the accuracy of forecasting annual taxation revenue for 2002–03 was impacted by the unexpected ongoing strength of the property market;\(^{984}\)

- review of existing public-private partnership (and other) contracts — the review was not completed in 2002–03 due to

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\(^{983}\) Department of Treasury and Finance response, received 24 December 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, pp.13-14

\(^{984}\) Department of Treasury and Finance, 2002-03 Annual Report, p.27
delays in finalising the new Partnerships Victoria guidance materials but will be completed during 2003–04.  

- resolution of residual gas interests — the project was rescheduled due to extensive negotiations with the gas retailers who had disputed certain terms of the transfer of Gascor Pty Ltd to the retailers. The Department advised that the project was subsequently resolved in the first quarter of 2003–04.

- termination of structured finance transactions — in 1983 the State entered into financing and leasing arrangements with the South Eastern Medical Complex Limited (SEMCL), a company which at that time was controlled by the former State Bank of Victoria, to finance the construction of a new hospital complex. The arrangement involved the SEMCL constructing the hospital complex and subsequently leasing the completed hospital, which was the Monash Medical Centre (Clayton campus), to the State.

Following the sale of the State Bank of Victoria to the Commonwealth Bank of Australia in 1991, the State held a 25 per cent share in the SEMCL. The State commenced proceedings to terminate its financing and leasing arrangements with the SEMCL in 1998 with the State acquiring full ownership of the SEMCL in that year. In subsequent years, the State paid out the borrowings raised by the SEMCL for the construction of the hospital ($42.65 million). The remaining step to wind-up the SEMCL was the leasing arrangements between the SEMCL and the Monash Medical Centre.

The Department advised that the delay in finalising the unwinding arrangements in 2002–03 was attributed to

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985 Ibid, p.32
986 Department of Treasury and Finance response, received 24 December 2003, to the Committee’s 2002–03 Budget outcomes questionnaire, p.16
988 South Eastern Medical Complex Limited, 2002–03 Annual Report, p.2
992 Ibid, p.104
negotiations with the Australian Taxation Office (ATO) to mitigate a potential tax exposure of up to $150 million in relation to section 51AD of the *Income Tax Assessment Act* 1936. The Department further advised that it was subsequently successful in its negotiation with the ATO and the former leasing arrangements between the Monash Medical Centre and the South Eastern Medical Complex Limited have been unwound, effectively mitigating the potential tax risks for the State under the former arrangements.993

- major policy reviews and refinements — a project planned for 2002–03 was the departmental reporting improvement project. The purpose of this project was to examine options for online/real-time reporting. Part of this exercise involved scanning developments in jurisdictions that provide access to up-to-date performance information for Government and government agencies, and the mechanisms for transmission of such information.994 This project was not completed because of a redirection of resources to other priorities, which the Department advised included the development of the new departmental funding model.995

The Department advised that the online/real-time reporting project has been subsumed into another review which was to research best practice in informing consumers of the cost and performance of public services.996 It is intended that this review will produce options for future reporting and will be completed by June 2004.997 The Department is currently conducting a project on the nature and level of reporting of performance information within the Victorian Government and considers it premature to adopt online/real-time reporting in view of this current review.998 The Department indicated that the results of the consumer reporting review will assist with improving performance information.999
The Committee has in the past expressed concerns about ongoing delays preventing the development of the Victorian performance measurement and reporting framework. The Committee anticipates that the Department’s latest project to review the reporting of performance information will assist in developing the framework.

As indicated in the report on the 2003–04 Budget Estimates, the Committee intends to examine the Victorian performance measurement and reporting framework in the context of a future inquiry.

- client department’s satisfaction with office accommodation services — the low satisfaction rating was the result of changing to a new property management contractor and transition to a new service model.\textsuperscript{1000} The Committee believes the Department should continue to monitor its client satisfaction levels given the significant decrease in satisfaction levels to 70 per cent following the implementation of the new arrangements;

The Committee recommends that:

\textbf{Recommendation 98:} The Department of Treasury and Finance continue to monitor client satisfaction levels with its office accommodation services.

- departmental clients satisfied with fleet financing arrangements — the issues identified in the client satisfaction survey following the low client satisfaction level of 48 per cent were:\textsuperscript{1001}
  - inflexibility of leasing and pricing arrangements; and
  - inadequate management information to support the lease arrangements.

The Department has indicated that it is currently considering alternative, more flexible lease arrangements with greater

\textsuperscript{1000} Department of Treasury and Finance response, received 24 December 2003, to the Committee’s 2002–03 Budget outcomes questionnaire, p.14

\textsuperscript{1001} Department of Treasury and Finance response, received 4 February 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.4
capacity for client departments to customise services to their needs. It also plans to improve the associated management information systems.\textsuperscript{1002} The Committee welcomes the Department’s action to address client concerns with the current fleet financing arrangements.

\textbf{13.3.1 Benchmarking of performance measures}

The Department advised it does not currently undertake any formal benchmarking process in developing output performance measures.\textsuperscript{1003} The Committee considers the use of performance measures based on national benchmarks provides an important insight into the effectiveness of activities over time and compared to other jurisdictions. The Committee encourages the Department to pursue opportunities to include relevant performance measures that are based on national benchmarks.

\textbf{13.3.2 Discrepancies in reporting of performance measures of the regulatory services output group}

The performance measures and costs for the regulatory services output group were reported in the annual reports of the Department and the Essential Services Commission (ESC), which has responsibility for the delivery of outputs in this output group.\textsuperscript{1004} The Committee noted some inconsistencies in the performance measures reported in both annual reports. The correct performance results as advised by the Department are shown in Exhibit 13.6.

\begin{footnotesize}
\begin{itemize}
  \item \textsuperscript{1002} Ibid
  \item \textsuperscript{1003} Department of Treasury and Finance response, received 24 December 2003, to the Committee’s 2002–03 Budget outcomes questionnaire, p.12
  \item \textsuperscript{1004} Ibid, p.1
\end{itemize}
\end{footnotesize}
Exhibit 13.6

Regulatory services — selected performance measures and output cost

<table>
<thead>
<tr>
<th>Performance measure</th>
<th>Unit of measure</th>
<th>2002-03 Target</th>
<th>2002-03 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry performance reports</td>
<td>Number</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Price approvals/reviews</td>
<td>Number</td>
<td>21</td>
<td>18</td>
</tr>
<tr>
<td>New/amended licences</td>
<td>Number</td>
<td>5</td>
<td>46</td>
</tr>
<tr>
<td>Ministerial and regulatory responses</td>
<td>Number</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Total output cost (a)</td>
<td>$ million</td>
<td>18.4</td>
<td>17</td>
</tr>
</tbody>
</table>

Note: (a) Includes the overhead costs charged to the Essential Services Commission by the Department of Treasury and Finance
Source: Department of Treasury and Finance response, received 22 March 2004, to the Committee’s follow-up questions

The Committee noted that the budgeted cost for this output group included an estimate of overhead costs charged by the Department to the ESC.1005 The Department also advised that the output cost information reported in the ESC’s annual report only relates to the Commission’s direct expenditure.1006

To reflect the true cost of this output group the Committee recommends that:

Recommendation 99: The Essential Services Commission in reporting on the cost of the Regulatory Services Output Group identify separately the overhead cost that was charged by the Department of Treasury and Finance.

13.4 Major issues

13.4.1 Whole of government leased motor vehicle fleet

In July 1997 the Government sold the majority of its motor vehicle fleet and entered into a Master Lease Agreement with the Commonwealth Bank of Australia involving the sale and leaseback of the budget sector motor vehicle fleet.1007 The leasing arrangement was recognised as a finance lease by the Department.1008

1005 Essential Services Commission, 2002–03 Annual Report, p.66
1006 Department of Treasury and Finance response, received 22 March 2004, to the Committee’s follow-up questions
1008 Department of Treasury and Finance, 2002–03 Annual Report, p.52
Under the terms of the agreement, the shortfall from the proceeds of the sale of the leased motor vehicles, compared to the agreed residual value upon which the lease rentals were based, was to be met by the Government through increased future leasing rentals. The Commonwealth Bank of Australia had chosen not to recoup losses on the disposal of leased vehicles via increases in future lease rentals. This resulted in a substantial accumulation of losses on disposal, which were to be met by the Government. The sale of leased vehicles is recorded in a ‘profit and loss adjustment account’ by the Department.

The ‘profit and loss adjustment account’ was recognised as a liability, under the category – interest-bearing liabilities – in the Statement of Financial Position shown in Exhibit 13.2.

The removal of the wholesale sales tax from which the Department was previously exempt and the introduction of the goods and services tax, which reduces the net proceeds available from the disposal of used motor vehicles, have contributed to the downward movements in used car prices. Accordingly, the Department recognised for the first time in 2000–01, a provision for losses of $90 million arising from the disposal of used cars that it leased.

During 2002–03 the following transactions occurred:

- an additional provision and expense of $9.6 million, attributed to further losses arising from the under-recovery of the residual values of the leased motor vehicles. The expense component was recognised in the Statement of Financial Performance in Exhibit 13.1 in the category – supplies and services; and
- a payment of $17.5 million to the Commonwealth Bank of Australia which resulted in a reduction in the balance owing in the ‘profit and loss adjustment account’.

1009 Department of Treasury and Finance, 2001–02 Annual Report, p.61
1011 In the Department of Treasury and Finance’s 2002-03 Annual Report, this provision is known as the ‘provision for motor vehicle lease deficit’
1013 Department of Treasury and Finance response, received 24 December 2003, to the Committee’s 2002–03 Budget outcomes questionnaire, p.21
1014 Ibid, p.68
As a result of the above transactions, the balance in the ‘profit and loss adjustment account’ (which represents the aggregate losses associated with vehicle disposals under the lease arrangements to be funded in future periods) at 30 June 2003 was $57.5 million.\(^{1015}\)

\[(a)\] Review of accounting procedures

The Department advised that during 2002–03 it became apparent that the financial information involving the sale proceeds and other aspects of leased motor vehicle disposals was incorrect, as was the accounting for motor vehicle disposals in the current and prior years.\(^{1016}\) A subsequent review resulted in total book losses of $53.2 million, comprising:\(^{1017}\)

- the correction to the accounting for the disposal of the leased motor vehicles which resulted in a loss on disposal of $29.4 million. This is reflected in the category – other revenue and revenue from other parties – in the Statement of Financial Performance in Exhibit 13.1; and

- an adjustment to the lease asset and liability balances, and other expense items, which resulted in the net result of a loss of $23.8 million. This is reflected in the category – supplies and services – in the Statement of Financial Performance (see Exhibit 13.1). This correction resulted in:\(^{1018}\)

  - a significant adjustment to the lease liability, because the estimated proceeds from the disposal of the leased motor vehicles had been overstated; and

  - a lesser adjustment to the leased motor vehicle asset values and other expense items i.e. interest and amortisation charges.

The Department advised the adjustment to the lease liability (which was understated) and the proceeds from the disposal of the leased motor vehicles (which were overstated) were attributed to the notional accounting entries for the leased motor vehicles which were based on the sale proceeds plus lease payments (excluding interest) equating to 100 per cent of the original cost of the vehicle. The Department indicated

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\(^{1015}\) Department of Treasury and Finance, 2002-03 Annual Report, p.68

\(^{1016}\) Department of Treasury and Finance response, received 4 February 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.21

\(^{1017}\) Ibid

\(^{1018}\) Ibid
the basis has now been amended to reflect estimated sales proceeds more closely equating to the residual value (which is 65 per cent/70 per cent of the original cost). The Department further indicated that the accounting entries ‘have always been notional journal entries, as the financier does not actually remit sales proceeds to DTF, but rather retains these for purchase of new vehicles’.\footnote{1019}

\subsection*{13.4.2 Latrobe Regional Hospital}

The Latrobe Regional Hospital commenced operations in September 1998 providing public hospital services in the Latrobe Valley under the build, own and operate model of private sector involvement.

The cost of building the hospital facilities was $56 million, and was funded by equity, bonds and subordinate debt, with the primary source of funds being inflation (CPI) indexed bonds of $40.7 million which were issued by the owner of the hospital, Latrobe Regional Hospital Pty Ltd (LRH).\footnote{1020} Under the arrangements, LRH was required to operate and maintain the hospital and provide quality services to public hospital patients in exchange for a stream of service charges from the State.\footnote{1021} The service charge comprised two components: a service component which was based on funding for casemix activity; and an allocated facilities component which was mainly applied to service the debt raised by the LRH.\footnote{1022}

The LRH subcontracted the operation of the hospital to a private company, the Australian Hospital Care (Latrobe) Pty Ltd (AHC).\footnote{1023} Following a protracted period of financial difficulties and many approaches to the State seeking funding above the contracted levels, the AHC began proceedings against the State in the Supreme Court in February 2000.\footnote{1024} In October 2000 the State Government approved a settlement which replaced the AHC as the operator of the hospital with a State-owned body corporate, the Latrobe Regional Hospital Public (LRH

\footnotetext[1019]{Department of Treasury and Finance response, received 22 March 2004, to the Committee’s follow-up questions}
\footnotetext[1020]{Department of Treasury and Finance response, received 4 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.19}
\footnotetext[1022]{Victorian Auditor-General’s Office, \textit{Report on Public Sector Agencies, June 2002}, p.77}
\footnotetext[1024]{Department of Treasury and Finance response, received 4 February 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, pp.4 and 19}
Public). The settlement required the State to replace the AHC as the operator of the hospital and assume all operational and financial risk from 31 October 2000. The transfer of the hospital operations to LRH Public was completed on 18 January 2002. The Department advised that as part of the settlement, the State acquired the AHC’s rights and interests in the LRH project e.g. the original lease between the owner (LRH) and the operator (AHC) and a subordinate loan.1025

In March 2002 an agreement was reached between the Department of Human Services and the owner of the hospital to wind-up the financial structure of the hospital project.1026 In May 2002 the Treasurer purchased all the issued shares in LRH for a nominal amount of $1. 1027 The Department advised that no compensation payments were paid to the hospital owner in order to obtain unencumbered ownership of LRH.1028

The Department advised that as part of the unwinding of the LRH project structure, in September 2002 the State paid out the issued bonds at the cost of $44.2 million.1029 However, the Committee noted that the LRH, who issued the bond debt in 1997 for the construction of the hospital,1030 had reported in its financial report for the period 1 July 2002 to 5 May 2003 that the Government paid out these bonds in full on 16 September 2002 at the net market value of $44.4 million.1031

The Department also advised that this action released the State of its future obligation to pay the allocated facilities component of the service charge to LRH for a further 11 years.1032 In addition the following transactions were undertaken:1033

- LRH transferred all its interests in the LRH project, including ownership of the hospital to LRH Public for nil consideration. This was an intra-government transfer and resulted in the LRH

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1025 Ibid
1027 Department of Treasury and Finance response, received 4 February 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.19; Victorian Auditor-General’s Office, Report on Public Sector Agencies, June 2002, p.78
1028 Department of Treasury and Finance response, received 4 February 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.19
1029 Ibid
1030 LRH Pty Ltd was originally a private sector company, but was subsequently acquired by the State of Victoria in May 2002
1031 Latrobe Regional Hospital, 2002–03 Annual Report, pp.2 and 14
1032 Ibid
1033 Department of Treasury and Finance response, received 4 February 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, pp.19-20
Public recognising a one-off revenue gain of $51 million, while LRH recorded a corresponding loss; and

- LRH Public forgave a subordinate loan given to the LRH. The total loan and accrued interest forgiven was $17 million. This resulted in a one-off expense of $17 million to LRH Public and a corresponding gain by LRH. The Department advised that the cancellation of the loan was consistent with the unwinding of the structure, which was no longer relevant to the State owning and operating the hospital.

The Department advised that, as a result of the above transactions, the ownership of the hospital and all its assets were transferred to LRH Public, and that there are no residual commitments to the State as a result of the wind-up of the project.\textsuperscript{1034}

The Committee noted the agreement between the Government and the private operator provided that in the event of an operating default which has not been overcome by the company or the operator, the Government could exercise any of the various remedies embedded in the agreement, including stepping in and taking over the management of the hospital.\textsuperscript{1035}

The Latrobe Regional Hospital is an early example of an attempt to engage the private sector in providing public services under a privatised model. This example illustrated that the privatisation of public services does not always result in the full transfer of financial risks to the private sector as the Government retains the responsibility for the provision of public services. The Committee is currently conducting an inquiry into public private partnerships and issues involving the transfer of risk will be reported on.

\textsuperscript{1034} Ibid
Chapter 14: Department for Victorian Communities

Key Findings of the Committee

14.1 The total budgeted expenditure for the Department for Victorian Communities and its agencies, adjusted for the machinery of government changes, was $194.9 million in 2002-03. Actual expenditure for the year was $275.6 million, $80.7 million or 41.4 per cent above budget. The increase in expenditure was attributed to an expanded program of community grants from the Community Support Fund of $84.1 million.

14.2 The Department had an operating deficit of $20.1 million in 2002–03, $181.6 million below the expected result of a surplus of $161.5 million. This was mainly as a result of revenue of $255.4 million falling below the adjusted Budget estimate of $356.4 million.

14.3 Most of the performance targets for the various output groups were achieved or exceeded in 2002-03. However, the methodology used for setting the targets needs to be reviewed.

14.4 The Department for Victorian Communities had staff assigned from a large number of Departments including the Department of Premier and Cabinet and the Department of Education and Training. The Department failed to provide a full response to the request for information on performance bonus payments. The Committee was only advised of the bonuses paid to staff members who had come from the Department of Tourism, Sport and the Commonwealth Games. It paid three bonuses totalling $31,450 to executive staff during 2002–03. The average bonus was $10,500, representing outstanding performances by the executives. No performance bonuses were paid to non-executive staff during 2002–03.

14.5 At the time that this report was prepared, a number of projects for the Commonwealth Games were behind schedule. Action needs to be taken to ensure that the facilities are completed within the necessary timeframes.
Key Findings of the Committee (continued):

14.6 The Department for Victorian Communities needs to undertake an evaluation of its project management capabilities and strategies.

14.7 Despite the investment of around $46.3 million in employment programs in 2002-03, the extent to which these programs were successful in growing employment in Victoria, particularly in respect of disadvantaged persons and migrants, was not articulated in the Department’s annual report.

14.8 Consolidated information on the disbursement of funds by licensed clubs to community organisations and activities needs to be included in the annual report of the Department.

14.1 Overview

The Department for Victorian Communities was created as a successor to the Department of Tourism, Sport and the Commonwealth Games on 1 January 2003, as part of the machinery of government changes announced in December 2002.

The Department covers the responsibilities of the Ministers for Victorian Communities, Employment and Youth Affairs, Multicultural Affairs, Women’s Affairs, Aboriginal Affairs, Local Government, Sport and Recreation and Commonwealth Games.

The Department’s statutory authorities are:

- Victoria Grants Commission;
- Melbourne and Olympic Parks Trust;
- Melbourne Cricket Ground Trust;
- Melbourne 2006 Commonwealth Games Corporation
- Public Records Advisory Body
- Professional Boxing and Combat Sports Board;
- State Recreation Camps Committee of Management;
- State Sport Centres Trust;
• Victorian Multicultural Commission; and
• Queen Victoria Women’s Centre Trust.

### 14.2 Financial performance

The financial report provides information on the former Department of Tourism, Sport and the Commonwealth Games from 1 July 2002 to 31 December 2002 and the Department for Victorian Communities from 1 January 2003 to 30 June 2003.\(^{1036}\)

Although the adjusted Budget for 2002-03 provided for total revenue of $356.4 million, the actual revenue was $255.4 million. The amount of $255.4 million was from two sources: Government appropriations accounted for $216.6 million and the Community Support Fund contributed a further $38.6 million.\(^{1037}\)

Actual expenditure for the year was $275.5 million, as compared to the adjusted Budget of $194.9 million for 2002-03, representing additional expenditure of $80.6 million. The Department advised that the additional expenditure arose from an expanded program of community grants from the Community Support Fund costing $84.1 million.\(^{1038}\)

The Department had an operating deficit of $20.1 million as a result of the timing differences in the receipt of revenues into specific trust funds and the payment of grants, as well as the impact of machinery of government changes.\(^{1039}\)

The Department’s total assets have increased by $337.1 million due primarily to the transfer of land and buildings of the Public Record Office Victoria and the Public Record heritage asset valued at $159 million.\(^{1040}\)

Total liabilities increased by $11.5 million due to an increase in employee entitlements associated with the transfer of staff to the Department.\(^{1041}\)

The financial performance of the Department for 2002–03 is shown in the following exhibit 14.1:

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\(^{1036}\) Department for Victorian Communities, 2002-03 Annual Report, p.10
\(^{1037}\) Department for Victorian Communities response, received 14 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.3
\(^{1038}\) Ibid
\(^{1039}\) Ibid, p.5
\(^{1040}\) Ibid
\(^{1041}\) Ibid
Report on the 2002-03 Budget Outcomes

Exhibit 14.1

Department for Victorian Communities
Statement of Financial Performance 2002—03

<table>
<thead>
<tr>
<th>Statement of Financial Performance</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003 Adjusted Budget (a) $ million</td>
<td>2003 Actual (b) $ million</td>
<td>Variation (c) $ million</td>
</tr>
<tr>
<td>Revenue from ordinary activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output appropriations</td>
<td>138.3</td>
<td>167.8</td>
<td>29.5</td>
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<tr>
<td>Special appropriations</td>
<td>-</td>
<td>48.8</td>
<td>48.8</td>
</tr>
<tr>
<td>Resources received free of charge or for nominal consideration</td>
<td>144.5</td>
<td>0.2</td>
<td>-144.3</td>
</tr>
<tr>
<td>Sale of goods and services</td>
<td>1.7</td>
<td>-</td>
<td>-1.7</td>
</tr>
<tr>
<td>Other revenue and revenue from other parties</td>
<td>71.9</td>
<td>38.6</td>
<td>-33.3</td>
</tr>
<tr>
<td>Total revenue from ordinary activities</td>
<td>356.4</td>
<td>255.4</td>
<td>-10.1</td>
</tr>
<tr>
<td>Expenses from ordinary activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>26.7</td>
<td>26.4</td>
<td>-0.3</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>2.8</td>
<td>2.7</td>
<td>-0.1</td>
</tr>
<tr>
<td>Resources provided free of charge or for nominal consideration</td>
<td>-</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Grants and other payments</td>
<td>130.8</td>
<td>214.9</td>
<td>84.1</td>
</tr>
<tr>
<td>Capital asset charge</td>
<td>3.1</td>
<td>2.5</td>
<td>-0.6</td>
</tr>
<tr>
<td>Supplies and services</td>
<td>31.6</td>
<td>27.5</td>
<td>-4.1</td>
</tr>
<tr>
<td>Other expenses</td>
<td>-</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Total expenses from ordinary activities</td>
<td>194.9</td>
<td>275.5</td>
<td>80.6</td>
</tr>
<tr>
<td>Net result for the reporting period (d)</td>
<td>161.5</td>
<td>-20.1</td>
<td>-181.6</td>
</tr>
</tbody>
</table>

Notes:  
(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003  
(b) Figures have been extracted from Department of Victorian Communities 2002-03 Annual Report, p.118  
(c) A negative variance indicates there is a Budget surplus for the particular line item.  
(d) The actual net result for 2002—03 is a deficit

Sources: 2003—04 Budget Paper No.3, Budget Estimates, p.414; Department of Victorian Communities, 2002—03 Annual Report, p.118

Information provided by the Department indicated that major variations between the adjusted Budget and actual results were due to the following factors:

- increase in output appropriations of $29.5 million was due to Treasurer’s advances during the year. A total of about $14.2 million was paid to the Sport and Recreation output group for a diverse range of programs such as the Commonwealth Games; the State Lawn Bowls Centre and legal
costs associated with the State Netball and Hockey Centre. The largest Treasurer’s advance was $5.9 million for Grand Prix infrastructure works. An amount of $4.4 million was shared among the output groups for the enhancement of policy and risk management capacity; 1042

- increase of $48.8 million to special appropriations and a decrease of $144.3 million to resources received free of charge, was due to changes in accounting treatment;

- decrease of $33.3 million in other revenue reflected a decrease in gambling revenue received by the Community Support Fund;

- increase of $84.1 million in grants and other payments reflected an expanded program of grants from the Community Support Fund;

- decrease of $600,000 in capital asset charge, reflected the actual charge for the year calculated on the value of the Department’s net assets; and

- decrease of $4.1 million was due to the Department underspending its budget for supplies and services by just over $4 million. 1043

The Committee was advised that the 2002–03 adjusted Budget estimate reflected the aggregation of supplies and services estimates provided by the six relinquishing Departments for the period 1 January 2003 to 30 June 2003 and that at the time of preparing the Budget, the Department had not had the opportunity to verify these estimates. Actual expenditure on supplies and services reflects the appropriate accounting treatment of expenses incurred by the Department’s divisions in 2002–03.

The Department assured the Committee that it has endeavoured to accurately classify estimated expenses on supplies and services for 2003–04. 1044

1042 Department for Victorian Communities response, received 14 January 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.28
1043 Ibid, pp.3–4
1044 Department for Victorian Communities response to the Committee’s 2002–03 Budget outcomes follow-up questions
14.2.1 Community Support Fund - gambling revenue

The Community Support Fund was established by the *Gaming Machine Control Act* 1991. A fixed share of proceeds from electronic gaming machines (EGMs) in hotels and clubs is paid into the fund.\(^{1045}\)

Currently clubs, including Tabaret venues, are required to pay 25 per cent of their gaming machine revenue in tax while hotels pay 33.33 per cent. Under this arrangement clubs are required to spend the difference, 8.33 per cent, on initiatives to benefit their local communities.\(^{1046}\)

In 2002-03 the Government introduced a number of initiatives to address problem gambling. These included a reduction in the number of electronic gaming machines across the state and in particular regions; tighter regulation of loyalty schemes; and provision of player activity statements to members.

The Government also introduced a requirement that those venues designated as clubs publicly issue community benefit statements to account for the 8.33 per cent differential. This requirement came into effect on 1 July 2004 and the first community benefit statements will be publicly available through the web site of the Commission for Gambling Revenue in September 2004. The Committee commends this initiative which will provide open and public accountability from clubs for their financial contributions to local communities.

Under the Government’s regional caps policy, up until February 2003, 243 electronic gaming machines (EGMs) had been removed from venues in targeted regions which was the equivalent of 60 per cent of the number planned for removal over the 2002–03 period.\(^{1047}\)

Also at that date, the number of 24-hour gaming venues had been reduced to 41 - from 123 in 1999; and the number of licences for gaming machine venues had been reduced to 541 - down from 560 in June 1999.\(^{1048}\)

Figures for 2002–03 confirm that gamblers net expenditure at Victorian venues had fallen by 8.9 per cent compared to the previous twelve months. The net expenditure on electronic gaming machines across the

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\(^{1046}\) Minister for Gaming, media release, 'Gaming reforms set to take effect', 21 June 2003

\(^{1047}\) Minister for Gaming, media release, 'Bracks Government gaming restrictions working', February 24, 2003

\(^{1048}\) Ibid
State in 2002-03 stood at $2.33 billion, down from $2.56 billion in 2001–02.1049

This reduction in overall gaming expenditure in clubs and hotels partly explains the reduction of revenue to the Department for the Community Support Fund. Revenue from gaming in 2002–03 of $48.8 million was less than estimated by $20.4 million. The Committee was advised that this reduction followed the introduction of smoking bans in licenced hotels and clubs which was having a more significant impact than originally anticipated.1050

In referring to the reduction in gaming expenditure from poker machines, on 8 August, 2003, the Minister for Gaming, Hon. J. Pandazopoulos stated:

The Bracks Government is committed to promoting a transparent and accountable gaming environment.

As part of this transparency we have made these statistics publicly available on the Office of Gaming Regulation website monthly.1051

The Committee is pleased that information regarding numbers of machines and venues, and expenditure in each local government area is now publicly available on a monthly basis and looks forward to seeing detailed information on how clubs spend the 8.33 per cent of turnover which is to be directed towards community purposes.

The Committee considers that consolidated information on the distribution of funds within the community by clubs, could be included in the annual report of the Department, for the purpose of enhancing accountability to the Parliament and the public.

The Committee was impressed by the diversity of programs funded by the Community Support Fund and noted with interest that nearly $44 million had been approved for programs relating to drug treatment and drug education including over $32 million to the Department of Human Services for its 2003–04 drug program.

1050 Department for Victorian Communities response to the Committee’s 2002–03 Budget outcomes follow-up questions
1051 Minister for Gaming, media release, ‘New Figures Show Annual Gaming Spend Down’, 8 August 2003
Most of the funding was allocated to Government Departments to undertake a range of projects including approximately $70 million for developing sports facilities; $10 million on prevention and early detection for obesity and diabetes; and $10 million to the Department of Justice for the community safety emergency support program. The Committee also noted that of the $200 million allocated for community projects, only $2.8 million was directed to programs related to excessive gambling.1052

Use of the Community Support Fund for Government activities means that supplementary funding of Government outputs is derived from the Trust Fund, inclusive of the Community Support Fund.

The Committee accepts that the activities undertaken by the Department for Victorian Communities from grants made by the Community Support Fund benefit community activities. However, an equitable balance and a clear distinction is needed between moneys directed from the fund to Government activities compared to activities undertaken by non-government organisations.

**Recommendation 100:** The Department for Victorian Communities include in its annual report consolidated information on the disbursement of funds by licensed clubs to community organisations and activities.

### 14.3 Financial position

The financial position as at 30 June 2003 reflects the operations of the Department from 1 July 2002 to 30 June 2003 following machinery of government changes implemented on 1 January 2003.
## Exhibit 14.2

### Department for Victorian Communities
Statement of financial position 2002—03

<table>
<thead>
<tr>
<th>Statement of Financial Position</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002–03 Adjusted Budget</td>
<td>2002–03 Actual</td>
<td>Variation (b)</td>
</tr>
<tr>
<td></td>
<td>($ million)</td>
<td>($ million)</td>
<td>($ million)</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>26.1</td>
<td>115.8</td>
<td>89.7</td>
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<tr>
<td>Other financial assets</td>
<td>131.9</td>
<td>-</td>
<td>-131.9</td>
</tr>
<tr>
<td>Receivables</td>
<td>5.0</td>
<td>22.6</td>
<td>17.6</td>
</tr>
<tr>
<td>Inventories</td>
<td>0.6</td>
<td>0.6</td>
<td>-</td>
</tr>
<tr>
<td>Prepayments</td>
<td>1.5</td>
<td>0.5</td>
<td>-1.0</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>165.1</td>
<td>139.5</td>
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</tr>
<tr>
<td><strong>Non-current assets</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>14.1</td>
<td>5.7</td>
<td>-8.4</td>
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<td>Property, plant and equipment</td>
<td>52.1</td>
<td>217.5</td>
<td>165.4</td>
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<td>Intangible assets</td>
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<td>0.2</td>
<td>-0.1</td>
</tr>
<tr>
<td>Other</td>
<td>139.3</td>
<td>-</td>
<td>-139.3</td>
</tr>
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<td><strong>Total non-current assets</strong></td>
<td>205.8</td>
<td>223.4</td>
<td>17.6</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>370.9</td>
<td>362.9</td>
<td>-8.0</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>-</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Payables</td>
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<td>6.6</td>
<td>2.6</td>
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<tr>
<td>Provisions</td>
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<td>1.3</td>
</tr>
<tr>
<td>Other</td>
<td>0.4</td>
<td>0.4</td>
<td></td>
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<tr>
<td><strong>Total current liabilities</strong></td>
<td>6.1</td>
<td>11.5</td>
<td>5.4</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
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<tr>
<td>Interest bearing liabilities</td>
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<td>-</td>
<td>-0.1</td>
</tr>
<tr>
<td>Provisions</td>
<td>3.6</td>
<td>5.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Other</td>
<td>0.3</td>
<td>-</td>
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<td><strong>Total non–current liabilities</strong></td>
<td>4.0</td>
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<td>1.7</td>
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<td><strong>Total liabilities</strong></td>
<td>10.1</td>
<td>17.2</td>
<td>7.1</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>360.8</td>
<td>345.7</td>
<td>-15.1</td>
</tr>
</tbody>
</table>

Note:  
(a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003. The adjusted Budget has been sourced from Budget Paper No. 3, 2002—04 Budget Estimates, (p.415), while actual amounts have been obtained from the Department for Victorian Communities 2002—03 Annual Report, p.119  
(b) A negative variance indicates the actual result for the particular line item was below Adjusted Budget

In response to the Committee’s questionnaire the Department provided the following information about the variances:1053

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1053 Department for Victorian Communities response, received 14 January, 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, pp.5–6
Report on the 2002-03 Budget Outcomes

Current assets

- assets and other financial assets – an increase of $89.7 million, or 343.7 per cent, in cash assets, and a decrease of $131.9 million, or 100 per cent, in other financial assets, were the result of changes in the accounting treatment for Community Support Fund balances. In 2002-03 adjusted Budget balances were treated as ‘other financial assets’ and in annual financial statements as ‘cash’;
- receivables – increase of $17.6 million, or 352 per cent, reflects an increase in the balance of the state administration unit (SAU) as a result of finalisation of accounting transfers associated with machinery of government changes; and
- prepayments were $1 million less than estimated.

Non-current assets

- receivables – decrease reflects finalisation of machinery of government transfers following the budget. The amount of $5.7 million represents the balance in the SAU for staff-related provisions such as long service leave;
- property plant and equipment – increase reflects the finalisation of asset transfers to the Department for Victorian Communities following machinery of government changes and the inclusion of cultural assets in the 2002-03 actual Budget; and
- cultural assets were included in ‘Other’ at budget time but correctly included in ‘Property Plant and Equipment’ in the 2002-03 actual Budget.

Current liabilities

- an amount of $1.1 million in cash assets represents funds not yet drawn down for unpresented cheques paid to creditors;
- payables were $2.6 million at balance date more than estimated at the time of 2003-04 budget preparation; and
- staff-related provisions, long service leave and recreation leave, were $3.4 million, as at 2002-03, an increase of 1.3 million.
Non-current liabilities

- actual Budget for staff-related provisions was $2.1 million, or 58 per cent, higher than estimated; and

- Department for Victorian Communities estimated unearned income of $300 000. The Committee noted that as at 30 June 2003 there was no unearned income.

Equity

- increase in contributed capital of $163.9 million reflects the finalisation of asset transfers from relinquishing Departments following the 2002-03 Budget; and

- variation in the accumulated surplus is caused by the change in accounting treatment of assets transferred to the Department for Victorian Communities from the operating statement at the time of the 2003-04 budget preparation, to the balance sheet in the actual Budget.

The Department of Tourism, Sport and the Commonwealth Games, predecessor to the Department for Victorian Communities, paid three bonuses totalling $31,450 to executive staff during 2002–03. The average bonus was $10,500, representing outstanding performances by the executives. No performance bonuses were paid to non-executive staff during 2002–03.

The Committee was advised that eligibility for bonus payments was based on performance criteria established by the Department of Industry, Innovation and Regional Development which was the provider of human resources services at the time.1054

The total cost of WorkCover premiums paid by the Department for the fiscal year was $179,000 and the total cost of WorkCover premiums for the Department’s agencies was approximately $282,000.

14.4 Output groups

The Department has three major outputs: Supporting Local Government; Sport and Recreation and the Commonwealth Games; and People, Community Building and Information Services.

1054 Ibid, p.9
The financial performance of the Department for Victorian Communities by output group for 2002–03 is detailed below:

### Exhibit 14.3

#### Department for Victorian Communities

**Output summary 2002—03**

<table>
<thead>
<tr>
<th>Output</th>
<th>2002-03 Revised Budget(^{a}) ($ million)</th>
<th>2002-03 Actual ($ million)</th>
<th>Variation (b) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting local Government</td>
<td>9.3</td>
<td>11.8</td>
<td>2.5</td>
</tr>
<tr>
<td>Sport, recreation and the Commonwealth Games</td>
<td>96.3</td>
<td>95.4</td>
<td>-0.9</td>
</tr>
<tr>
<td>People, community building and information services</td>
<td>87.5</td>
<td>102.7</td>
<td>15.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>193.1</strong></td>
<td><strong>209.9</strong></td>
<td><strong>16.8</strong></td>
</tr>
</tbody>
</table>

Notes:  
(a) This column takes into account additional funding provided by special appropriations, Treasurer’s advances and transfers.  
(b) A negative variance indicates there is a Budget surplus for the particular line item.

Sources:  
Budget Paper No. 3, Budget Estimates 2003—04, p.397  
Department for Victorian Communities’ response, received 14 January 2004, to the Committee’s Budget outcomes questionnaire, p.10

The Committee was advised that variations for each output group resulted from the inclusion of expenses on corporate overheads and regional services which were not included in the 2002–03 adjusted figure as the corporate budget had not been established at that time.

The amount of $15.2 million over Budget in the output group - People, Community Building and Information Services reflects increased expenditure on community grants from the Community Support Fund.\(^{1055}\)

### 14.5 Performance information

The Committee notes that many of the performance targets for the People, Community Building and Information Services output group were achieved or exceeded but that some of the targets appeared to be conservative. For example, in the output group, Sport and Recreation, the target of 8–10 major events facilitated was exceeded by almost 100 per cent; and the target for the number of participants in the World Masters Games 2002 was set at 16,000 while 24,805 participated. In the output group, Employment Programs, the target of 150,000 was set as the number of web site hits and telephone enquiries under the Youth Employment Link (YEL) but the number achieved was 391,368 — more

\(^{1055}\) Ibid, p.10
than double the target. In the output group, Aboriginal Reconciliation and Respect, a target of ten meetings was set for the Premier’s Aboriginal advisory council and the Victorian Aboriginal affairs coordinating Committee and only 1 was achieved.\textsuperscript{1056}

Further, performance measures should not only measure quantity, quality and timeliness but should also reflect the actual cost of individual outputs against targets. Such measures will be especially relevant with the staging of the Commonwealth Games. Accordingly, the Committee recommends that:

**Recommendation 101:** The Department for Victorian Communities review performance information contained in the Budget Papers and its annual report to ensure that performance measures are costed and timelines and targets are achievable.

**14.5.1 Supporting local government**

The Committee noted that in the broad areas of quantity, quality and timeliness virtually all of the targets for performance measures in the Supporting Local Government output group were achieved with one notable exception:

- council annual reports lodged within statutory timeframes achieved only 76 per cent against a target of 100 per cent.\textsuperscript{1057}

Lodging annual reports on time is an important accountability mechanism. The Committee urges the Department to take action to ensure all municipal councils lodge their annual reports within the statutory timeframe.

\begin{small}
\textsuperscript{1056} Department for Victorian Communities, Annual Report 2002-03 pp.106–17
\textsuperscript{1057} Ibid p.107
\end{small}
The Committee recommends that:

**Recommendation 102:** The Department for Victorian Communities take action to ensure that all municipal councils lodge their annual reports within the statutory timeframe.

### 14.5.2 Sport, recreation and the Commonwealth Games

The focus of the Sport, Recreation and the Commonwealth Games output group includes the attraction, planning and retention of major national and international sporting and other events that raise the profile of Victoria.

The Committee was pleased to note that targets had been met or exceeded in all performance measures. Over the year, Sport and Recreation Victoria managed the funding agreements for 17 major events which contributed to an economic benefit in Victoria estimated to be in excess of $927.4 million representing 5 per cent of Victoria’s GDP. The World Masters Games attracted over 24,000 participants.

The Committee noted that the number of aquatic facility projects funded through the Community Support Fund nearly doubled the target of 10, with 19 projects being funded.

In relation to the planning and coordination for the Commonwealth Games however, the Committee noted that a number of projects have been delayed. For example, commencement of the athletes village was delayed beyond the planned date of February 2003.

The Committee is also aware that other projects have experienced delays. Expansion of the Melbourne Sports and Aquatic Centre, budgeted at $7 million, was due to commence in February 2003. On 6 January, 2004 the final design of the 50-metre competition pool was unveiled by the Acting Premier and the Minister for Commonwealth Games. In response to the Committee’s questionnaire, the Department advised that

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1058 Department for Victorian Communities, 2002-03 Annual Report, p.23
1059 Ibid, p.24
1060 Ibid, p.109
1062 Minister for Commonwealth Games, media release, ‘Another Games Venue Off and Racing’, 6 January 2004
contract negotiations had ‘taken longer than anticipated’ but that the project would be completed within the original timelines.\textsuperscript{1063}

Redevelopment of the Melbourne Cricket Ground (MCG), the site for the staging of the opening ceremony of the games, is estimated to cost $400 million. The Commonwealth Government was to contribute $90 million. However, following a dispute the Victorian Government contributed an additional $77 million to the cost with the balance of $13 million made up by the Melbourne Cricket Club (MCC).\textsuperscript{1064}

The State Training Velodrome at John Cain Reserve, Northcote, is due to open in 2004. The Committee was advised that the facility is nearing completion and on schedule.\textsuperscript{1065}

The Committee is concerned that delays in the commencement of these facilities could have cost implications and will impact on the budget estimates prepared for the Commonwealth Games. The Committee urges the Government to take action to resolve any outstanding issues that are delaying the building of various facilities for the Commonwealth Games 2006 and ensure that performance information relating to these projects is publicly available.

The Committee recommends that:

**Recommendation 103:** The Department for Victorian Communities:

(a) resolve the outstanding issues that are delaying the building of facilities for the Commonwealth Games 2006; and

(b) ensure that performance information on the progress of all projects is made available to the Parliament and the public at regular intervals.

\textsuperscript{1063} Department for Victorian Communities response, received 14 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.14

\textsuperscript{1064} David Rood, in *The Age*, ‘MCG funding fallout’, 6 June 2002

\textsuperscript{1065} Department for Victorian Communities response, received 14 January 2004, to the Committee’s 2002-03 Budget outcomes questionnaire, p.11
14.6 Benchmarks

None of the targets developed in 2002–03 were based on national benchmark data. The Committee looks forward to the Department for Victorian Communities basing targeted outcomes on validated trends and national benchmarks where available and relevant.

14.7 Asset investment program

The actual expenditure for asset investments was $3.6 million compared to a budget estimate of $23 million. Funds for a number of projects were underspent for different reasons. The following information on the asset investment program was provided by the Department:

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Total estimated investment</th>
<th>Actual expenditure to 30 June 2002</th>
<th>Budgeted expenditure 2002–03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melbourne Sports and Aquatic Centre</td>
<td>51.2</td>
<td>0</td>
<td>7.0</td>
</tr>
<tr>
<td>Sport and Recreation Camps - Compliance</td>
<td>1.2</td>
<td>0</td>
<td>1.2</td>
</tr>
<tr>
<td>Victorian Electronic Records Strategy (VERS)</td>
<td>5.5</td>
<td>0</td>
<td>2.5</td>
</tr>
<tr>
<td>Fitout of 1 Spring Street</td>
<td>12.3</td>
<td>0</td>
<td>11.3</td>
</tr>
<tr>
<td>Fitout Level 48 Nauru House - OCGC</td>
<td>0.9</td>
<td>0</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>71.1</strong></td>
<td><strong>0</strong></td>
<td><strong>22.9</strong></td>
</tr>
</tbody>
</table>

Source: Department for Victorian Communities response, received 14 January 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.14

As previously stated the Department assured the Committee that the Melbourne Sports and Aquatic Centre would be completed by the date originally forecast. Commencement was delayed to allow further consultation with key stakeholders and the public. Further, although camp projects were behind schedule in 2002–03, the Committee was advised that upgrade works had been completed at the camp at Mt Evelyn; design work had been completed at Howman’s Gap and Camp Manyung. The Committee was further advised that:

- expenditure for Sport and Recreation Camps was under budget because scoping and design of the projects took longer than anticipated;

1066 Department for Victorian Communities response, received 14 January 2004, to the Committee’s 2002–03 Budget outcomes questionnaire, p.21
• expenditure for the Victorian electronic records strategy (VERS) was under budget because the timing was dependent on the relocation of the National Gallery of Victoria which was temporarily occupying space identified for this project;

• expenditure for the fitout and information technology investment for 1 Spring Street was under budget because the timelines had shifted as a result of project approval and design stages taking longer than anticipated; and

• expenditure for the fitout of Level 48 Nauru House was under budget because expenditure on the fitout reflects the phasing up of the Office of Commonwealth Games Coordination.1067

The Committee accepts that on occasions delays will occur with projects due to unforeseen circumstances. Nevertheless, given the extent of the delays occurring with major projects, a review of the Department’s project management capabilities needs to be undertaken. The Committee recommends that:

Recommendation 104: The Department for Victorian Communities undertake an evaluation of its project management capabilities and strategies.

14.8 Trust funds

The following information was provided by the Department on trust funds it administers:

<table>
<thead>
<tr>
<th>Trust Fund Account</th>
<th>Opening balance $'000</th>
<th>2002–03 Revenue $'000</th>
<th>2002–03 Expenses $'000</th>
<th>Closing balance $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANZAC day Proceeds</td>
<td>411</td>
<td>-</td>
<td>-</td>
<td>411</td>
</tr>
<tr>
<td>Community Support Fund</td>
<td>141,360</td>
<td>111,561</td>
<td>131,235</td>
<td>121,686</td>
</tr>
<tr>
<td>Info Vic Account</td>
<td>2,131</td>
<td>5,774</td>
<td>4,846</td>
<td>3,059</td>
</tr>
<tr>
<td>Special Projects Account (a)</td>
<td>1,232</td>
<td>45,058</td>
<td>40,016</td>
<td>6,274</td>
</tr>
</tbody>
</table>

Notes: (a) Includes funding for major events and the Forest Worker Assistance Program.
Source: Department for Victorian Communities response, received 14 January 2004, to the Committee’s 2002—03 Budget outcomes questionnaire, p.21

1067 Ibid, p.14
In its 1999–2000 Budget Outcomes report, and its 2000–01 Budget Outcomes report, the Committee commented on the need for the Department to review the adequacy of performance measures in providing information on the outcomes of projects funded by the Community Support Fund and the level of funds allocated to research into problem gambling. The Committee notes that performance measures have still not been developed in 2002–03 for these activities.

The Committee also notes the substantial closing balance of $121.6 million in the Community Support Fund which was established to help the Government achieve its objectives ‘to build active, confident communities and promote stronger local networks’.

As the Government is currently refining the Community Support Fund guidelines to reflect its second term objectives, consideration should be given to expanding the purposes for which the fund could be used to apply the large, ongoing balances to activities that will benefit the community.

14.9 Employment programs

The responsibility for Employment Programs up until 5 March 2002 was with the Department of Education, Employment and Training. Machinery of government changes from that date resulted in the Employment Programs Division being relocated in the Department of Innovation, Industry and Regional Development.

The Division only remained with this Department for around nine months as further machinery of government changes in December 2002 resulted in the Employment Division moving to its current location within the Department for Victorian Communities. Given the number of different Departments which have had responsibility for employment programs, the Committee now hopes that the Employment Programs output will experience some stability in the pursuit of its objectives.

The objective of the output for 2002-03 was to deliver the Government’s employment programs which assist designated groups in the community to secure and retain employment and to develop new initiatives to address employers’ needs for a skilled and adaptable labour force in communities across the State. Outputs provided by the...
Department for Victorian Communities in 2002-03 involving employment programs were:1069

- **Policy and labour market advice**
  
  A major component of this output is the Youth Employment Link, which is an online data base providing information for young people on careers, education courses, comprehensive employment advice and job referrals.

- **Community employment programs**
  
  Mainly comprises two programs, namely:
  
  (a) Community Jobs Program – directed at the long term unemployed and provides up to 16 weeks paid employment and nationally accredited training; and

  (b) Community Business Employment Program – provides funding to government agencies and community organisations to employ local job seekers on community projects that are linked to ongoing employment opportunities.

- **Business employment**
  
  Provision of a range of services, to employers and individuals, including encouraging increased take up of apprentices and trainees in areas of skill shortage. Includes programs such as the Government Youth Employment Scheme, Go For It (directed towards apprenticeships and trainees), Youth Employment Incentive Scheme (assisting long term or disadvantaged unemployed young people) and the Private Sector Skills Development Program.

- **Migrant employment services**
  
  Delivers initiatives to attract skilled migrants to Victoria, particularly in rural and regional Victoria. Also includes an overseas qualification unit whereby overseas qualifications are assessed and advice is given on employment prospects in the Australian Labour Market. Migrants are also given opportunities to learn English and attend bridging courses to upgrade existing qualifications.

1069 Department for Victorian Communities, 2002-03 Annual Report, pp.110–112
The Department’s annual report for 2002-03 did not disclose the actual cost of the above outputs, although the Budget provision was $46.3 million. The Committee noted that in the 2003-04 budget, employment programs to be delivered by the Department of Victorian Communities were costed at $66.8 million. The Department of Education and Training also delivered a range of employment related programs which were costed at $87.7 million in 2003-04.

Given the substantial financial investments in employment programs and their critical importance in creating employment and advancing industry and commerce in Victoria, the Committee sought to establish how the Department evaluated the effectiveness of the various employment programs. The Committee is not questioning the purpose of the programs, but considers the Department has an obligation to report how effective the programs were in achieving the Government’s objectives.

The annual report of the Department for 2002-03 did not contain any discussion or analysis of the performance of the employment programs beyond stating that performance targets had been achieved and general statements that the Employment Programs output had attracted businesses and jobs, identified gaps, needs and opportunities in the labour market and delivered appropriate employment strategies targeted at marginalised job seekers. Quantification of the actual results achieved or their contribution to employment in Victoria was not provided.

Each of the outputs had a select number of performance indicators, which were directed towards quantity and quality. Under quantity a comparison was provided between the target for persons assisted and the actual result. However, while quantitative targets of this nature are useful, it is difficult to determine whether the targets were met as a result of the Department’s programs or arose as a result of the numerous other factors influencing the employment of individuals.

The Committee noted with interest that two performance measures relating to the number of long term and disadvantaged unemployed people assisted and the number of apprenticeship trainee commencements – did not record their targets and actual performance. An explanatory note stated that the actual targets were met in the...
previous year. It is unclear to the Committee why a performance measure should be recorded in an annual report to the Parliament when it was deemed not to be relevant because targets were met the previous year.

The Committee noted that a number of press releases have been issued relating to the various employment programs. These have included:

- *Since 2000, the Skilled Migration Program has nominated 1,272 skilled migrants to settle in Victoria.*

- *Since the Community Jobs Program began in July 2000, it has created 7,000 jobs state wide.*

- *Since the Bracks Government came to office Victoria’s share of Australia’s skilled migrants has jumped from 20.2 per cent to 24.3 per cent.*

- *Since 2001 more than 200 skilled migrants unable to find work using their qualifications have been provided with workplace orientation and work experience though the Overseas Qualified Professionals Program.*

The Committee accepts that the employment programs administered by the Department have had some success. However, the extent to which the programs can be directly linked to the success identified or to a range of other factors including Commonwealth Government programs, economic climate, programs delivered by other government departments and agencies, all of which influence employment, requires greater clarity.

The Committee believes mechanisms need to be developed to clearly demonstrate the link of employment programs administered by the Department and the actual outcomes achieved. It is also noted that whereas the press statements quoted statistics, similar information was not included or updated in the annual report of the Department.

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1073 Minister for Employment, media release, ‘Regional Victoria ‘The Place To Be’ for skilled migrants’, 24 November 2003


1075 Minister for Employment, media release, ‘Bracks Government gets results on skilled migrants’, 13 January 2004

1076 Ibid
The Committee recommends that:

Recommendation 105: The Department for Victorian Communities:

(a) evaluate all employment programs it administers with a view to determining the key indicators of success directly linked to the programs;

(b) include in its annual report an analysis of the value and benefits that are being derived from the employment programs; and

(c) undertake a review to determine whether there is any duplication or overlapping of employment programs offered by other government agencies and organisations.
Chapter 15: Review of Annual Reports of Departments and Agencies

Key Findings of the Committee:

15.1 Generally, Departments and Agencies have made some improvement in reporting on their performance but the progress to best practice is slow. Throughout the Victorian Public Sector, there is still quite a degree of variation in the standard of reporting.

15.2 Many Agencies tend to focus on reporting initiatives, projects and activities rather than achievement of objectives and outcomes. It appears to the Committee that the annual reports are still seen by some Agencies as ‘compliance’ and public relations documents rather than instruments of accountability.

15.3 At present, there are two key obstacles to good performance reporting:

- deficiencies in the Government’s existing Performance Management and Reporting Framework due to the extended delay in its finalisation; and
- absence of a streamlined and standardised format for Agency performance reporting that is underpinned by legislative directions.

15.4 The Committee’s review of the 2002-03 annual reports has identified a number of common deficiencies in the performance information produced by Departments and Agencies. The key problems that have been found include:

- weak correlation between the Corporate and Business plans of Agencies and their annual reports (i.e. all the key elements of the Plans do not flow through to the reports as part of ex-post accountability);
- poor quality of the performance information on the achievement of departmental objectives and Government outcomes;
- completed initiatives and projects not reported against those planned for the current year;
- excessive details on projects, activities and events;
Key Findings of the Committee (continued):

- lack of benchmarking comparisons with the performance results achieved by similar Agencies in other Australian jurisdictions;
- limited forward-looking commentaries on the future operating environment and developments as well as the challenges faced by Agencies; and
- Agencies not giving a balanced presentation of the results of operations emphasising mainly the ‘good news’ with few references to failures, setbacks and problems encountered during the year.

15.5 As a matter of urgency, the Department of Treasury and Finance needs to work with Departments and Agencies to:

- finalise the Performance Management and Reporting Framework; and
- develop a standardised format for performance reporting together with guidance material.

15.1 Introduction

Annual reports are a key mechanism for Departments and Agencies to account to Parliament and the public for their performance and use of public funds. Good performance reporting allows readers to judge achievements and value for money. By examining an Agency’s annual report, the readers should be able to gain some appreciation of whether the tax dollars have been spent efficiently and effectively. When performance reporting is less than comprehensive, the accountability, transparency and openness of the Government and Agencies are diminished.

A key objective of the Government’s Performance Management and Reporting Framework is to improve management of budget sector resources in order to achieve the Government’s outcomes and to ensure adequate internal and external accountability for performance. In the past, the Committee has expressed concerns in a number of its Budget
Estimates and Budget Outcomes Reports about the slowness in the
development of the framework.

The major shortcomings of the existing Performance Management and
Reporting Framework, which has yet to be finalised, are:

- weakness of the correlation between the Corporate and
  Business Plans of Agencies and their annual reports (i.e. all the
  key elements of the plans do not flow through to the annual
  reports as part of the ex-post accountability process);

- inadequacies of the performance indicators that are used to
  assess achievement of Agencies’ objectives and the
  Government’s desired outcomes; and

- poor linkages between Agencies’ outputs, resource allocation
  and objectives and the Government’s desired outcomes.

In the Committee’s view, the above shortcomings of the framework have
hindered effective accountability for the performance of the Government
and its Agencies in the delivery of service outputs and the desired
outcomes. This was evident during the course of the Committee’s review
of the 2002-03 annual reports of Departments and Agencies.

The other key obstacle to good performance reporting is the absence of a
clear legislative direction on the key elements that are essential for
accountability. The Committee strongly believes that a streamlined and
standardised format for Agency performance reporting needs to be
developed as a matter of urgency by the Department of Treasury and
Finance together with guidance material. This will ensure that a robust
and consistent approach is applied across the Victorian Public Sector.

The Committee recommends that:

Recommendation 106: The Department of Treasury and Finance, as a
matter of urgency, develop a standardised format for performance
reporting in annual reports, together with guidance material for Departments and
Agencies.

Evidence to-date has shown that, without a legislative framework, some
Agencies tend to focus on reporting initiatives, projects and activities
instead of presenting balanced and unbiased information on performance outcomes. It may well be that they still regard the annual reports as ‘compliance’ and public relations documents rather than instruments of accountability.

As an impetus for encouraging a high standard of reporting, the Committee reviewed the 2002-03 annual reports of all Departments and Victoria Police, the Environment Protection Authority, VicRoads, Melbourne Water, the Auditor-General’s Office and the National Gallery of Victoria.

The focus of the review was on performance reporting and compliance with the annual reporting requirements as prescribed in the Directions issued by the Minister for Finance under the Financial Management Act 1994.1077

Generally, Departments and Agencies have made some improvements in reporting on their performance since the Committee’s last review but the progress to best practice is slow. The main areas that have shown noticeable improvements are:

- use of quantitative key performance indicators to demonstrate achievement of objectives;
- provision of explanations for major variances between output performance targets and actual results achieved; and
- discussion and analysis of financial results and position.

There are some examples of good performance reporting and a number of strengths in the present reporting regime. The Committee is pleased to note that some Agencies have made a special effort to improve the quality of the information contained in their annual reports – in particular the Department of Sustainability and Environment; Victoria Police; VicRoads; Melbourne Water; and the Auditor-General’s Office.

The Committee is of the view that the Auditor-General Office’s approach to performance reporting has set a benchmark for other Departments and Agencies within the Victorian Public Sector. The report is focused on accountability for performance outcomes. It has been written in a way that allows the readers to access key information easily. There are a number of major features in the report that have contributed to its usefulness as an instrument of accountability.

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1077 Sections 45 to 54 of Part 7 of the Financial Management Act 1994, as amended, specific the annual reporting requirements for Departments and public bodies and Part 9 of the Directions of the Minister for Finance include details of annual reporting requirements.
The Committee’s review highlighted that there is quite a degree of variation in the quality of the performance information published in annual reports. For example many Agencies still focus on reporting initiatives, projects and activities rather than achievement of objectives and outcomes.

Few reports have set out concrete statements of what was planned to be achieved, particularly details of planned initiatives and performance targets for the objectives and outcomes. In the absence of such information, it would be difficult for the readers to determine the degree of success in the delivery of services and initiatives.

In some cases, there is an excessive amount of low-level detail in the reports particularly on activities and events. The Committee believes that the reports should be clear and concise to facilitate understanding. Therefore, other methods should be used to disseminate detailed information about the operations of an Agency, such as information booklets and the Agency’s website.

The Committee has found that most reports have not given a balanced presentation as they have only highlighted the ‘good news’ but there are few references to problems, setbacks and performance results that did not meet expectations. The Committee believes a balanced and unbiased presentation serves to enhance the overall credibility of an annual report.

Very few Agencies have provided a benchmarking comparison of their performance against the results achieved by similar Agencies in other Australian jurisdictions. Those that have attempted have only done so in a partial way, for example, the Department of Justice. Without such information, it is not possible to know how close an Agency’s performance comes to ‘best practice’.

Another issue of concern to the Committee is a general lack of reporting on shared responsibilities for cross-agency or whole of government performance issues and the contribution that each Agency has made to the outcomes.

The Committee’s review of the 2002-03 annual reports has identified a number of other deficiencies outlined below:

- in a number of cases, the key performance indicators for the corporate objectives have not consistently flowed through from the Corporate and Business Plans to the annual reports. Also,
some Agencies’ performance indicators do not adequately cover all of the objectives and very few Agencies have addressed the issue of organisational capability (i.e. capability of employees and sustainability of public service infrastructure);

- generally, Agencies do not have a discipline of highlighting and explaining changes to the key performance indicators. Nor do they have a practice of explaining the significance of the indicators to assist readers’ interpretation and understanding;

- where performance targets and results are published, very rarely do Agencies also incorporate data for the previous years to allow a discussion and analysis of past trends;

- most of the ‘Highlights’ Sections present only a list of completed major initiatives, projects and activities. The emphasis is mainly on the internal processes rather than performance outcomes. Usually only ‘good news’ is reported in these Sections with no reference to problems and setbacks;

- very few reports have an Executive Summary or ‘Overview’ Section commenting briefly on:
  - progress towards achievement of the Agency’s corporate objectives;
  - important initiatives and events in the current year and plans and outlook for the following year (including both positive and negative factors); and
  - performance indicators relating to the key features of the Agency’s operations

- the Section on ‘Future Outlook’ usually only contains a list of major projects and initiatives planned for the following year. Agencies need to adopt a more strategic focus and provide a commentary on the future operating environment, developments and challenges; and

- tables, charts and graphs are useful communication tools but sometimes they are not accompanied by adequate explanations.
Set out below are the detailed results of the Committee’s review of the 2002-03 annual reports.

15.2 Department of Treasury and Finance

The report is well-structured and concise, allowing readers to access key information easily. The Department’s approach to output performance reporting is exemplary, providing detailed commentaries on all instances of significant under and over performance and cost variations in relation to each of the output groups.

The performance information, however, is mainly focused at the output level. There is a lack of key performance indicators that are specifically linked to the four objectives of the Department. The relevant Government desired outcomes are referred to only in a general way. Also, there is no explanation of their linkage to either the departmental objectives or the measures of progress for the Government outcomes. As a result of these gaps in the reporting structure, the readers would have difficulties in judging the effectiveness and efficiency of the results achieved.

The Committee’s review has also identified the following issues in relation to performance reporting:

- in presenting the performance information on each of the seven output groups, there is a separate section on ‘key projects and initiatives’ completed or progressed during the year.\(^{1078}\) The information on its own does not allow an assessment of whether the Department was successful in delivering on its plans. The Department also needs to compare the results achieved with the major initiatives and projects planned for the year and give explanations for any delay together with a revised target date for completion. It is important for the readers to be able to track performance in the delivery of key initiatives from year to year;

- the ‘Output Performance Summary’\(^{1079}\) is one of the positive features of the report but it can be further improved. The Summary provides a brief statistical analysis of the output data. It should be expanded to incorporate some additional comments on the major trends in output performance as well as

\(^{1078}\) Department of Treasury and Finance, 2002-03 Annual Report, pp.20-21, 27; 32, 35, 37 and 40-41

\(^{1079}\) Ibid, p.18
an overview of the critical success factors and significant problems and issues encountered during the year;

- a number of graphs have been included in the ‘Secretary’s Report’ with such headings as ‘Maintaining a Substantial Budget Surplus’, ‘Victoria: The Place to Be’, ‘Investing in Victoria’s Future’ and ‘DTF Budget – Output Appropriations’.\textsuperscript{1080} Apart from the graph on output appropriations, presumably the other three graphs are intended to demonstrate the Government’s economic and financial management performance. If so, they should be accompanied by appropriate commentaries particularly on past trends and future projections;

- the ‘Our Future’\textsuperscript{1081} Section only deals with a number of internal organisational improvement initiatives. Throughout the report, there is a general lack of prospective commentaries on future plans and developments. A separate Section should be included incorporating comments and information on:
  - the future operating environment and developments (including expected future changes and trends);
  - issues and events that are likely to have a major impact on the Department and on the Government’s budgetary performance and financial/economic position; and
  - the major initiatives and projects planned for the following year.

- the Section on ‘Financial Performance’\textsuperscript{1082} could be further enhanced by including a discussion and analysis of the trends as reflected in the ‘Five Year Financial Summary’\textsuperscript{1083} and also a commentary on major internal financial management issues;

- the Department is involved, from time to time, with other Agencies in the delivery of cross-Agency and whole of government initiatives and programs. The Committee has noted that the report has not provided any comments on shared
responsibilities for cross-Agency performance issues and the Department’s contribution to the outcomes.

The report has not fully complied with the following requirements as specified in the Directions issued by the Minister for Finance under the Financial Management Act:

- a chart setting out the organisational structure of the Department has not been included (clause 9.1.3 (i)(d)(iii)); and
- the Section on ‘Occupational Health and Safety’\(^{1084}\) has not provided any performance indicators or targets for improved performance next year as required by clauses 9.8.2 (ii) and 9.8.3.

15.3 Department of Premier and Cabinet

The report has provided comprehensive information on the initiatives and projects planned for 2002-03 and the results achieved. There is, however, a general lack of key performance indicators in the report to demonstrate the degree of success in achieving each of the four departmental objectives and also the Government’s desired outcomes. The presentation of a balanced report still remains a challenge as there are limited commentaries on problems, issues and setbacks encountered during the year.

The Committee has noted that the specifications of the planned initiatives and projects under the headings ‘Aims’\(^{1085}\) do not closely correlate with the specifications in the Corporate Plan in some instances. Also, many of the ‘Aims’ set for 2002-03 are expressed in a non-specific way using words like ‘to improve’, ‘to continue to develop’ and ‘to ensure’. Generally, there are few references to targets and milestones. This would make it difficult for the readers to properly determine the success or otherwise of the Department’s efforts.

Further, a large number of the reported initiatives and projects appear to be of a relatively minor nature and, in fact, some of the items listed are only ongoing activities. The Committee believes that the report would be easier to comprehend with a sharper focus on the key strategic initiatives and a reduction of the descriptive details.

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\(^{1084}\) Ibid, p.100
\(^{1085}\) Department of Premier and Cabinet 2002-03 Annual Report, pp.26-29, 39-40, 45, 47, 51, 54 and 63
In the ‘Output Reporting’ Section\textsuperscript{1086} and in ‘Appendix V – Measurement of the Department’s Performance’,\textsuperscript{1087} it has been noted that no explanations have been provided for instances where there is a major variance between an output target and the result achieved. This is a major deficiency of the existing performance reporting structure. In those cases where the Department under-performed, the readers would also expect to be informed of what actions have been taken to improve output delivery.

The ‘Key Financial Results 1998–1999 to 2002–2003’\textsuperscript{1088} table is not accompanied by any analysis and commentary on the significant variations between current and previous year and past trends. Further, the comments in the ‘Financial Management’ Section\textsuperscript{1089} are confined to the financial statements and there are no references to internal financial management and accountability issues and initiatives.

The report does not contain a Section on ‘Future Directions’ covering major issues at the strategic level. This is referred to in the ‘Background’ in Part 9.1 of the Directions issued by the Minister for Finance on annual reporting under the Financial Management Act. The ‘Future Directions’ Section is normally expected to provide pertinent forward-looking information and comments such as:

- a discussion of the future outlook for the Department including issues and events that are likely to have a significant impact on the following year’s performance;
- details of expected future changes and trends within the Department’s operating environment; and
- an outline of what the Department aims to achieve in future years (particularly in the next year) and objective measures of performance.

In the Committee’s view, the report would also benefit from the inclusion of an ‘Overview’ Section at the beginning commenting briefly on:

- significant issues and developments for the current year and future directions and outlook for the following year (including both positive and negative factors);
• major projects and initiatives completed relative to plans as well as those identified for action in the following year;

• key performance targets and results achieved; and

• the financial results for the year.

The ‘DPC at a Glance’ Section is inadequate as it merely presents a long list of planned initiatives and projects and details of actions taken by the Department in relation to those matters.

15.4 Department of Human Services

The report has provided a substantial amount of information on achievements for the 2002-03 year. The details are mainly related to key performance indicators, initiatives and ongoing activities. The Committee would like to see a less descriptive approach adopted by reducing the amount of low-level details.

While the overall approach to performance reporting is adequate, there is scope for further improvement in the following areas:

• the report sets out the Government’s priority actions that are the primary responsibility of the Department along with those that are related to its functions. However, in reporting on performance, there is no reference to the ‘measures of progress’ for the priority actions. This is a significant gap in the accountability process;

• the Committee has noted that not all of the major key performance indicators in the annual Business (or departmental) Plan have flowed through to the report. Those that have include:
  - % of Code 1 emergency ambulance cases responded to within 13 minutes;
  - % of patients admitted to hospital from emergency Departments within 12 hours;
  - % reduction in total numbers on the waiting list for elective surgery services; and

1090 Ibid, pp.8-18
- funding for an additional number of units of Home and Community Care services.\textsuperscript{1091}

- most of the key performance indicators have not been reported against the targets as set out in the annual Business Plan. Also, there is limited analysis of past trends. In some cases, last year’s comparatives are shown together with the actual results for 2002-03. In a few of the other cases, only a percentage change from last year’s result is mentioned. A typical example is: the Plan shows a target of ‘95% of emergency patients admitted within 12 hours to hospital’. However, the report has only mentioned that the ‘% of patients admitted into hospital wards from the emergency Departments within 12 hours has increased to 87% from an average of 85%’.\textsuperscript{1092} Without knowing the target of 95%, the readers of the report would not be able to identify that the Department has in fact failed to achieve its aim;

- the report has provided explanations for all instances of major under and over performance as well as cost variances in output delivery. Some additional comments on remedial actions taken to address performance shortfall would be helpful to readers of the report;

- there are two other major omissions in the performance reporting structure. First, details of the major initiatives and projects planned for the 2002-03 year have not been highlighted in the review of operations. Secondly, there is an absence of a benchmarking comparison with the performance results achieved by similar Agencies in other Australian jurisdictions. Such data is available from the Steering Committee for the Review of Commonwealth/State Service Provision;

- in the 2002-03 departmental Plan, there is a specific Section dealing with ‘Key Challenges for the Department’. Given the diversity of its responsibilities and the increasingly changing nature of its operating environment, it would be appropriate for the report to dedicate a Section at the beginning to comment on the key challenges and the Department’s responses to those challenges. Further, to ensure a balanced presentation, the Committee is of the view that both successes and setbacks need to be analysed and discussed in the report. This is a requirement

\textsuperscript{1091} Department of Human Services 2002–03 Annual Report, pp.41-47
\textsuperscript{1092} Ibid, p.41
of clause 9.1.3 (ii)(d) of the Directions issued by the Minister for Finance which specifies that ‘a summary of major changes and factors which have affected the achievement of operational objectives for the year’ is to be disclosed in annual reports;

- the report would also benefit from the inclusion of a Section on Future Directions and Developments and an Overview Section covering not only achievements but also:
  - significant issues and developments for the current year and future directions and outlook for the following year (including both positive and negative factors); and
  - a snapshot of key performance data and financial results for the year.

The Committee has noted that the report has not fully complied with the following Directions issued by the Minister for Finance:

- no explanations have been provided for the major variances between actual and budget figures in the Budget Portfolio Outcomes Statements (clause 9.10); and

- the Financial Summaries are not accompanied by a commentary on the past trend data. (clauses 9.1.3 (ii) (a) and (b)).

15.5 Department of Infrastructure

The Department has not adopted the Corporate Plan as the framework for reporting performance. The Review of Operations mainly contains a detailed description of the initiatives, projects and activities undertaken during the year under each of the eight departmental outcomes. Electronic links to other more detailed sources of information have been provided.

The Committee has found that there is limited reporting of:

- the link between the objectives and the eight outcomes of the Department and the Government’s desired outcomes;

- the ‘measures of progress’ for the priority actions under the Growing Victoria Together Strategy; and
the performance targets as shown in the 2003-06 Corporate Plan and the results achieved against those targets. For example: a customer satisfaction index of 75% or higher was chosen as a target in relation to the quality of public transport services. However, the report has only provided a general statement that there were improvements in the indices over a four-year period.\footnote{Department of Infrastructure 2002-03 Annual Report, p.20}

All of the above performance-oriented matters have been incorporated in the Corporate Plan but most of them have not flowed through to the report. Although a lot of details have been given on projects and initiatives completed or started during the year, there is no comparison with what the Department planned to deliver for the 2002-03 year.

Further, there is no discussion and analysis of the output performance contained in the main body of the report. Although the explanations provided for major under and over performance in the delivery of outputs are reasonable, they can be further improved, for example, by also providing details of remedial actions taken to improve performance.

The ‘Summary of Financial Results’ is useful in providing the readers with an insight into the reasons for the changes in financial results and position as compared to the previous year.\footnote{Ibid, p.49} This Section of the report could be further improved by including a brief discussion and analysis of the financial trends and references to the major financial management issues and initiatives.

The report does not appear to have given a balanced presentation of the performance results as the Department has concentrated only on ‘good news’ and has made few references to setbacks, problems and controversies encountered during the year. For example, there are no comments on the many issues raised in the Auditor-General’s recent reports about the State’s infrastructure projects such as the Federation Square\footnote{Ibid, p.14}, the regional fast-rail links to Geelong, Ballarat, Bendigo and Traralgon\footnote{Ibid, p.34}, the film and television studio at Docklands\footnote{Ibid, p.15} and the synchrotron project.\footnote{Ibid} Also, the report has not provided any comment about the adverse media reports about the State’s transport system.

\footnotesize{1093 Department of Infrastructure 2002-03 Annual Report, p.20
1094 Ibid, p.49
1095 Ibid, p.14
1096 Ibid, p.34
1097 Ibid, p.15
1098 Ibid}
Apart from the major issues identified above in relation to performance reporting, the Committee believes there are a number of other areas where further improvements can be made including:

- an Executive Summary at the beginning of the report covering:
  - the vision, mission, values and objectives of the Department;
  - major initiatives and projects undertaken or completed during the year;
  - key performance indicators relating to the objectives and outcomes;
  - significant issues and developments in the current year and the plans and outlook for the following year (including both positive and negative factors); and
  - the financial results for the year.

- a separate Section at the end of the report on ‘Future Directions and Developments’.

The review of the report has identified the following cases where the requirements of the Directions issued by the Minister for Finance have not been fully complied with:

- the Staff Profile - ‘Statement on Workforce Data’ is deficient as it only provides data for the current year and details of variations from the previous year. The Directions (clause 9.1.3 (i) (e)) specifically require the provision of data for the ‘current and previous financial year’;\(^\text{1099}\)

- the disclosures are deficient in relation to compliance with the National Competition Policy\(^\text{1100}\) (clause 9.1.3 (ii) (k)) and occupational health and safety matters\(^\text{1101}\) (particularly the lack of performance measures and targets) (clause 9.8); and.

- no explanations have been provided for the major variations between the actual and budget figures shown in the Budget Portfolio Outcomes Statements\(^\text{1102}\) (clause 9.10).

\(^{1099}\) Ibid, p.140
\(^{1100}\) Ibid, p.143
\(^{1101}\) Ibid, p.142
\(^{1102}\) Ibid, p.136
The report also has not included Table 1 ‘Number of Executive Officers Classified into ‘Ongoing’ and ‘Special Projects’" as required by the Accounting and Financial Reporting Bulletin (Issue 37, May 2002) issued by the Department of Treasury and Finance.

Generally, the performance reports on a number of statutory authorities under the control of the Department are inadequate as they have not provided any information and comments on the key performance indicators and also the outlook for the following year.

15.6 Department of Sustainability and Environment

The performance reporting approach of the Department has a number of positive features including:

- key performance indicators for the current year as well as the previous two years;\footnote{1104}{See for example, Department of Sustainability and Environment, 2002-03 Annual Report, pp.22, 23, 25, 28-29, 33, 35, 37, 39}
- explanations for all major variances between output performance targets and actual results for the current year;\footnote{1105}{Ibid}
- commentaries on all major variances between the actual and budget figures in the Budget Portfolio Outcomes Statements;\footnote{1106}{Ibid, p.154}
- `triple bottom line' reporting\footnote{1107}{Ibid, pp.16-17} covering the financial, environmental and social aspects of its operations.

However, there are a number of issues that will need to be addressed if the quality of the performance information is to be further improved. These issues are summarised below:

- clearer explanation of the linkages between the Government’s vision of ‘positioning Victoria as a world leader in sustainability’ and the Department’s objectives and outputs;
- further development and reporting of key performance indicators that are directly related to the objectives of the Department (including indicators on the enhancement of air and

\footnote{1103}{Ibid, p.140}
\footnote{1104}{See for example, Department of Sustainability and Environment, 2002-03 Annual Report, pp.22, 23, 25, 28-29, 33, 35, 37, 39}
\footnote{1105}{Ibid}
\footnote{1106}{Ibid, p.154}
\footnote{1107}{Ibid, pp.16-17}
water quality and pollution control). It is appropriate for the reported indicators to reflect intermediate (rather than final) outcomes as the Department only has an ‘influencing’ role. The Committee is aware that comprehensive performance indicators have been developed by a number of the Environment Protection Authorities in other Australian jurisdictions and they are also published as part of the ‘State of the Environment’ reports;

• inclusion of a discussion and analysis of performance trends and a benchmarking comparison with the results achieved by other similar interstate Agencies and with ‘national averages’;

• reducing the amount of details provided on initiatives, programs and activities and placing more emphasis on reporting the major initiatives against plans;

• replacing the ‘Highlights’1108 and ‘Year at a Glance’1109 Sections by an ‘Overview’ Section which deals with not only initiatives but also key performance indicators as well as major issues, problems and setbacks; and

• inclusion of a ‘Future Directions and Developments’ Section at the end of the report dealing with the future operating environment and developments as well as future plans and major initiatives that are designed to further improve performance.

The report has not provided last year’s comparatives for the workforce data as required by clause 9.1.3 (i)(e) of the Directions issued by the Minister for Finance.

15.7 Department of Education and Training

The report provides an extensive amount of information on initiatives, projects and activities. However, there is an inadequate focus on accountability for performance outcomes and the main issues identified by the Committee are:

• the report has not presented the objectives of the Department (as shown in the Corporate Plan 2000-03) nor the related performance targets and results achieved. Instead, the goals reported are those that have been established by the Government following a

1108 Ibid, p.12
1109 Ibid, p.13
number of recent reviews into the Victorian education and training system. The Government goals are mainly concerned with school education and do not cover the tertiary education sector. Of the five Government goals, details of the performance targets and progress achieved have been provided for only three of them in the annual report;\textsuperscript{1110}

- the report does not contain a specific Section dealing with the Department’s performance in delivering the major initiatives planned for the 2002-03 year. Throughout the report there is a vast amount of information on initiatives and projects implemented during the year (some of which are of a relatively minor nature). However, the reporting has not been done against plans thus making it difficult to effectively judge performance;

- the Department’s performance reporting structure should include a trend analysis of the key performance indicators used to measure progress made in achieving the departmental objectives and the specific goals set by the Government;

- the Department should also publish a benchmarking comparison of education and training outcomes with those achieved by similar Agencies in other Australian jurisdictions. Interstate data is available from the ‘Report on Government Services’ issued by the Steering Committee for the Review of Commonwealth/State Service Provision;

- there is no information on the Department’s performance in relation to cross-Agency issues;

- the ‘Summary of Financial Results’\textsuperscript{1111} could be further expanded to incorporate comments on financial and budgetary trends as well as future outlook;

- additional information needs to be provided on the future operating environment and developments as well as strategies in the ‘Outlook’ Section\textsuperscript{1112} which, at present, only contains basically a long list of projects planned for next year. This particular Section of the report can also cover the challenges

\textsuperscript{1110} Department of Education and Training, 2002-03 Annual Report, p.6
\textsuperscript{1111} Ibid, p.10
\textsuperscript{1112} Ibid, p.23
that the Department faces and the planned responses to those challenges. The material is available from the Department’s Corporate Plan.

The Committee believes that the usefulness of the report could be further improved in the following ways:

- the ‘Highlights’ Section at the beginning of the report only provides a monthly calendar of major events. It needs to be replaced by an ‘Overview’ Section or Executive Summary commenting briefly on:
  - progress towards the achievement of the Department’s objectives and the Government’s targets for education and training;
  - the significant policy initiatives implemented during the year;
  - the major challenges faced by the Department as well as problems and setbacks; and
  - the future outlook and developments (including both positive and negative factors).

- the ‘Budget Summary’ should be supported by appropriate explanations for any changes in budget allocations as compared to last year; and

- the mission of the Department and the supporting principles that are designed to assist the achievement of the mission (as disclosed in the Corporate Plan) should flow through to the annual report.

A review of compliance with other reporting requirements has shown the following:

- Freedom of Information (Minister for Finance Direction clause 9.1.3 (i) (f)). - No statistical information on the application and operation of the Freedom of Information Act; and

- Whole of Government Report on Responsiveness to Cultural Diversity, Women, Youth and Indigenous Affairs (Premier
Circular No. 2003/3) – Limited information on strategies proposed for the following year.

15.8 Department of Primary Industry

This is the first report of the Department since its establishment in December 2002. There are a number of good features that the Committee has noted in relation to the performance reporting framework such as the provision of:

- performance data not only for the current year but also for the previous three years under each of the output groups;\textsuperscript{1115}
- detailed explanations for instances of major under and over performance in output delivery;\textsuperscript{1116}
- an outline of the major initiatives, projects and activities to be undertaken next year for each output group;\textsuperscript{1117} and
- a commentary on future outlook in the ‘Financial Review’ Section.\textsuperscript{1118}

The review of the report has identified the following matters that, in the Committee’s view, would require attention in the preparation of future reports:

- in the ‘Review of Services’ Section,\textsuperscript{1119} there are insufficient references to performance measures of effectiveness and efficiency. Examples of measures given include numbers of agribusiness deals facilitated, value of external investment by industry in research and development projects and in the delivery of best practice systems and successful court prosecutions;
- the output performance measures have not been categorised into quantity, quality and timeliness and also only a limited number of quality and timeliness indicators are shown;
- the initiatives and projects completed for each of the output groups have not been reported against what was planned for

\textsuperscript{1115} See for example, Department of Primary Industries, 2002-03 Annual Report, p.26
\textsuperscript{1116} Ibid
\textsuperscript{1117} See for example, Ibid p.27
\textsuperscript{1118} Ibid, p.11
\textsuperscript{1119} Ibid, p.16
the 2002-03 year. Without such information, it would be difficult to hold the Department accountable for any failure to achieve its plans;

- in the case of surveys of stakeholders, the targets shown are either a target completion date for the survey or a target expressed as greater than a particular percentage rate (e.g. >65%) rather than an actual percentage rate; (See examples on pages 26 and 28 of the report)

- the ‘Highlights’\textsuperscript{1120} and ‘Year in Brief’\textsuperscript{1121} Sections should be replaced by an ‘Overview’ Section reporting on, among other things, the key performance indicators relative to the departmental objectives and the major completed initiatives against those identified in the Corporate and Annual Business Plans. In this Section, apart from the ‘good news’, there also needs to be a commentary on problems and setbacks encountered during the year to ensure a balanced and unbiased presentation of information;

- the report has not included a specific Section dealing with the future operating environment and developments as well as the priority initiatives for implementation in the coming periods (particularly the next year);

- in reporting on the other activities of the Department outside the three output groups, the only information given is an outline of initiatives and activities but no performance indicators have been disclosed at all. Those other activities include science and innovation, partnerships with industries and communities and emergency response and recovery;

- the report has not provided the previous year’s comparative figures for the following disclosures:
  
  - Statement of Workforce Data (Minister for Finance Direction clause 9.1.3 (i) (e)); and.
  
  - ‘Executive Officer Disclosures by Department’ (Accounting and Financial Reporting Bulletin (No. 37) issued by the Department of Treasury and Finance).

\textsuperscript{1120} Ibid, p.3
\textsuperscript{1121} Ibid, p.8
15.9 Department for Victorian Communities

The report presents mainly descriptive details about the projects, initiatives and ongoing activities of the Department under each of the output groups. Many of the key elements of a robust performance reporting structure have not been incorporated. The Committee is of the view that the report could be significantly improved by the inclusion of the following additional matters:

- an outline of the Government’s desired outcomes and strategic priorities, together with measures of progress, and how they relate to the operations of the Department would provide the policy and strategic context. Also, an explanation of how the outputs of the Departments are aligned with the objectives and the Government’s outcomes is needed. The Committee has noted that the objectives as stated in the report do not fully correspond with those specified in the Corporate Plan;

- a statement on the Department’s vision, mission and values should be provided;

- a presentation of the key performance measures and targets for the five objectives as well as a commentary on all major variances between targets and results should form part of the review of operations. Throughout the report, little effort has been made to provide quantitative key performance indicators. As an example: the conduct of the annual Community Satisfaction Survey is referred to under ‘Local Government Sector Development’ but the only information provided is a single statement that ‘the results continue to show improvements in residents’ overall satisfaction with their council’s performance’. The whole ‘Review of Operations’ Section is mainly concerned with the disclosure of details regarding initiatives, projects and ongoing activities undertaken during the year. Many of the matters reported are of a relatively minor nature;

- apart from the lack of reporting of key performance indicators, the ‘Report of Operations’ Section does not clearly identify the strategic initiatives planned for the 2002-03 year and the actual results achieved. Most of the aims stated for the reported achievements are sub-objectives and not specifications of the planned projects and initiatives. This makes it impossible to
determine whether the Department was successful in achieving its plans. Two typical examples of the aims are to ‘increase democracy in the Local Government Sector’\textsuperscript{1123} and ‘provide opportunities for young people to participate in a variety of events and programs in their local communities’;\textsuperscript{1124}

- the main body of the report does not contain a discussion and analysis of the output performance. The output data is set out in the Appendices but no explanations have been provided for instances of major under and over performance. Also, the Appendices have not included any output cost data (i.e. actual versus target);\textsuperscript{1125}

- the ‘Future Plans and Challenges’ Sections throughout the report only give a list of planned initiatives and projects as well as ongoing activities for next year. The Committee believes that the report needs a separate Section at the end on future directions and developments; and

- an overview section at the beginning of the report would also help to provide a snapshot view of the Department’s performance.

One of the positive features of the report is the use of short and succinct case studies to enhance readers’ interest in the issues and problems faced by the Department and to add a human aspect to the information presented.

A review of compliance with legislative requirements has revealed the following:

- insufficient details have been provided on workforce data including the absence of comparatives for the previous year (Minister for Finance Directions clause 9.1.3 (i)(e));

- no output cost data has been included in the output group sections (clause 9.1.2 (iii));\textsuperscript{1126} and

- the information on the application of the merit and equity principles and on occupational health and safety is deficient. In

\textsuperscript{1122} Department for Victorian Communities, 2002–03 Annual Report, p.19
\textsuperscript{1123} Ibid
\textsuperscript{1124} Ibid, p.41
\textsuperscript{1125} Ibid, pp.106-117
\textsuperscript{1126} Ibid, pp.16-17, 27-29, 33 and 37-38
the case of occupational health and safety, the general statements made have not been accompanied by any performance measures and targets (Minister for Finance Directions clauses 9.1.3 (i)(e) and 9.8).

15.10 Department of Justice

The report states on page 1 that ‘This Annual Report provides an account of the work of the Department’ and the whole document is about the detailed reporting of initiatives, programs and activities with only a limited focus on accountability for performance outcomes.

The Committee has noted that the 2000-2003 Strategy Plan of the Department is a robust and comprehensive document but it has not been used as a framework to account for performance. Many of the key elements of the plan have not flowed through to the report such as:

- the key performance indicators for the measurement of the achievement of objectives; and
- details of the planned initiatives and projects for 2002-03.

Two of the other concerns of the Committee are:

- the comments and information provided in the ‘Review of Operations’ Section are not specifically linked to each of the ten departmental objectives;\(^{1127}\) and
- the way in which the reported initiatives are described is such that it makes it difficult to relate back to the Plan in order to determine how successful the Department was in delivering on its initiatives.

Throughout the report, there are only occasional references to key performance indicators, a majority of which are mainly concerned with workload. The few effectiveness indicators include:

- correctional system performance statistics;\(^ {1128}\)
- compliance and enforcement outcomes in the Consumer Affairs area,\(^ {1129}\) and

\(^ {1127}\) Ibid, p.8
\(^ {1128}\) Ibid, p.79
\(^ {1129}\) Department of Justice, 2002–03 Annual Report, p.54
number of road crash fatalities.\textsuperscript{1130} The Committee was pleased that the Department has included a Section in the report on the benchmarking of its correctional system performance with the results achieved by similar Agencies in other Australian jurisdictions.\textsuperscript{1131} As previously mentioned in this chapter, the benchmarking of performance is seldom provided in the reports prepared by Departments and Agencies in the Victorian Public Sector.

Without such information, it is not possible for the Parliament and the community to know how close an Agency’s performance comes to ‘best practice’.

The report has not fully complied with the following Directions issued by the Minister for Finance:

- the ‘Statement of Financial Performance’\textsuperscript{1132} does not contain any balance sheet data and there is no commentary on major changes from last year and over time (clauses 9.1.3 (ii)(a) and (b));

- no explanations have been provided for the major variances between budget and actual figures in the Budget Portfolio Outcomes Statements (clause 9.10.3(i));

- no disclosure has been made on occupational health and safety matters (clause 9.8); and

- no output cost data has been included in the ‘Report on Outputs’ (clause 9.1.2 (iii)).\textsuperscript{1133}

\section*{15.11 Department of Innovation, Industry and Regional Development}

The report has a number of features which should help readers to gain an insight into the role played by the Department in achieving the Government’s desired outcomes. Those features include:

- an overview of the inter-relationships between the outputs delivered by the Department and its objectives and core

\footnotesize{\textsuperscript{1130} Ibid, p.44 \hfill \textsuperscript{1131} Ibid, p.9 \hfill \textsuperscript{1132} Ibid pp.80-89 \hfill \textsuperscript{1133} Ibid, p.132}
responsibilities and also their alignment with the Government’s economic vision and objectives;\footnote{1134} and

- a statement of the departmental objectives and the Growing Victoria Together objectives to which each of the output groups is linked.\footnote{1135}

In the area of performance reporting, the Committee has noted a number of gaps in the Department’s current approach:

- the most significant issue is that the Department has not presented a comprehensive suite of key performance indicators to allow an assessment of its efficiency and effectiveness and also the achievement of the Government’s economic goals. The report contains very few such indicators and the following are two examples of the ones disclosed:

  - $2,417 million new investments facilitated and announced (above the target of $1,200 million and 8\% over the result for 2001-2002);\footnote{1136} and
  
  - 18 million domestic overnight visitors and a market share of 23.9\% of all domestic visitors. (The report has not disclosed the targets for the 2002-03 year);\footnote{1137}

- in the ‘Achievements’ Section, other areas that need to be addressed include:
  
  - not enough performance indicators on the quality aspect of the outputs delivered;
  
  - too many minor indicators on the quantity aspect of outputs;
  
  - very limited commentaries on major under and over performance in the delivery of outputs;
  
  - excessive details on initiatives and projects which have not been reported against plans.

\footnote{1134} Department of Innovation, Industry and Regional Development, 2002–03 Annual Report, p.5
\footnote{1135} Ibid, p.11
\footnote{1136} Ibid, p.8
\footnote{1137} Ibid, p.9
• ‘The Highlights at a Glance’ Section mainly comprises a list of completed initiatives and projects together with some ongoing activities. This Section should be replaced by a more comprehensive ‘Overview’ Section capturing all the key elements of the ‘Achievements’ Section;.

• there is an absence of a ‘Future Directions and Developments’ Section dealing with the future operating environment and developments and the Department’s planned responses to the challenges; and.

• there should be more discussion and analysis of the financial trends and financial management issues in the ‘Financial Summary’ Section.

The Committee’s review of the report has identified the following instances of non-compliance with the Directions issued by the Minister for Finance:

• last year’s comparatives not provided for workforce data (clause 9.1.3 (i)(e)); and

• omission of the Budget Portfolio Outcomes Statements (clause 9.10) and no disclosure on occupational health and safety matters (clause 9.8(i)(ii)).

The report has also not given any information on Executive Officer numbers and classifications as required by the Accounting and Financial Reporting Bulletin (No. 37) issued by the Department of Treasury and Finance.

15.12 Auditor-General’s Office

The whole report is focused on accountability for performance. It has been written in a way that allows readers to access key information easily. A number of major features in the report have contributed to its usefulness as an instrument of accountability such as:

• a ‘Snapshot of Our Office’ Section providing a brief overview of the enabling legislation, audit responsibilities, operating environment and resources used;

1138 Ibid, pp.8-9
1139 Auditor-General Victoria, 2002-03 Annual Report, p.1
• a ‘Highlights for 2002-2003’ Section showing quantitative key performance indicators, completed initiatives and financial results together with cross references to more detailed information in the main body of the report;

• an explanation of how clients’ satisfaction with the services provided was assessed together with a comparison of actual survey results with targets;

• a comparison of results achieved against output targets as well as detailed explanations for all major variances and also targets for next year;

• an analysis of trend data on past performance;

• a commentary on organisational improvement initiatives introduced in response to those areas where performance targets were not met;

• details of planned initiatives and actual results achieved together with an outline of those initiatives planned for the following year; and

• costing and resourcing information for the different areas of operation.

The Committee is of the view that the Office’s approach to performance reporting has set a benchmark for other Departments and Agencies within the Victorian Public Sector. The only suggestion that the Committee has for future reports is to include two additional Sections on:

• the results of post audit quality assurance reviews conducted during the year and actions taken to improve services; and

• the future operating environment and developments. There are some comments on future directions but they are scattered throughout the report.

1140 Ibid, p.2
1141 Ibid, pp.27-28
1142 Ibid, p.11
1143 Ibid, pp.11-59
1144 Ibid
1145 Ibid
1146 Ibid
The report does not appear to have complied with the following requirements as prescribed by the Directions issued by the Minister for Finance:

- clause 9.1.3 (ii)(a) of the Directions requires ‘a summary of the financial results for the year with comparative results for the preceding four financial years’. The report has only provided comparative results for the previous two years (see page 59); and

- there is no information on major contracts (clause 9.6.2).

The Committee has also noted that the report has not included the following disclosures:

- the ‘Executive Officer Disclosure by Departments’ as required by the Accounting and Financial Reporting Bulletin (No. 37) issued by the Department of Treasury and Finance has not been given:
  - a gender composition of the executive classification; and
  - the variances between the current and previous reporting period.

- the disclosures as required by the Premier’s Circular No. 2003/3 ‘Whole of Government Reporting on Responsiveness to Cultural Diversity, Women, Youth and Indigenous Affairs’ have not been made.

### 15.13 Environment Protection Authority

The report is made up of a Compliance Report and a Community and Environment Report. The Compliance Report deals with all the matters prescribed by the Directions issued by the Minister for Finance under the Financial Management Act. The Community and Environment Report basically sets out the details of the initiatives, programs and activities in relation to the protection of the environment and the pursuit of partnerships and collaborative arrangements with industry and the community. For the first time, the Authority used CD-ROM as its primary means of distributing the annual report.

The report has highlighted that the Authority was very active during the year with a considerable amount of information on initiatives, projects...
and ongoing activities. However, it is not clear what the key priorities and strategies were and how successful the Authority was in achieving the strategic goals as set out in the Corporate Plan.

The Committee noted that some of the key elements in the Corporate Plan have not flowed through to the annual report such as the strategic goals, corporate values, strategic priorities and analysis of the operating environment. Also, the reporting of performance results is not linked to the Key Result Areas as identified in the Plan.

The Committee is of the view that the Authority’s current performance reporting structure needs a major revamp to ensure that the following additional matters are incorporated and fully explained:

- mission, vision, strategic goals and corporate values of the organisation;

- Government’s desired outcomes and priorities in relation to the protection of the environment and their alignment with the Authority’s ‘Four Pillars’ (i.e. ‘issues of importance’) and strategic goals;

- quantitative key performance measures and targets that are linked to each of the strategic goals (together with a discussion and analysis of past trends and a benchmarking comparison of the performance results with those of similar Agencies in other Australian jurisdictions. A comprehensive set of indicators are reported annually by, for example, the NSW Environment Protection Authority. There are also interstate data published in the ‘State of the Environment’ Reports as well as World Health Organisation standards. Given that the Authority only has an ‘influencing’ role in relation to environment protection, the indicators should more appropriately be in the form of ‘intermediate’ rather than ‘final’ outcomes on, for example, air and water quality, noise control as well as waste management;

- a comparison of the output targets (as specified in the Budget Papers) with the actual performance against those targets together with appropriate explanations for all major variances. Although most of the data is reported in the annual report of the Department of Sustainability and Environment, the Committee believes that it would be useful for the information
to also be incorporated in the Authority’s own report so that it can be a stand-alone document;

- reporting of major initiatives against those identified in the Corporate and Business Plans. The report presents an excessive amount of minor details on initiatives and programs. The details should be cut back to concentrate only on the major items; and

- an ‘Overview’ Section and a Section on ‘Future Directions and Developments’.

The Committee has also identified the following issues that need to be addressed:

- throughout the report, there are occasional references to key performance indicators but they are mainly workload indicators rather than indicators of effectiveness and efficiency. For example, workload indicators have been shown for emergency response services, motor vehicle enforcement, pollution prevention and control programs and prosecutions;

- the ‘Financial Summary’ Section\(^\text{1147}\) only includes financial data for the last five years but there is no commentary on major variances from last year and on past trends. The Section should also incorporate comments on financial management issues and initiatives; and

- the five-year statistics on different aspects of the Authority’s activities\(^\text{1148}\) (as shown on pages 2, 4, 6, 18 and 19) have not been discussed and analysed to allow readers to gain a better insight into the past operations of the Authority.

The eleven pages of detailed information on prosecutions\(^\text{1149}\) (pages 20-30) is not relevant to accountability for performance outcomes. This Section of the report should instead provide a discussion and analysis of major results achieved and trends.

The report does not appear to have fully complied with the following Directions issued by the Minister for Finance:

\(^{1147}\) Environment Protection Authority Victoria, 2002-03 Annual Report, p.6  
\(^{1148}\) Ibid, pp.2,4,6,18 and 19  
\(^{1149}\) Ibid, pp.20–30
the workforce data is only a total figure and it has not included any details on staff categories (clause 9.1.3 (i)(e));

there are no comments on the application of the merit and equity principles (clause 9.1.3 (i)(e));

the disclosure requirements relating to occupational health and safety matters have not been fully complied with as there is insufficient information on performance targets and results and also on targets for improved performance in the following year (clause 9.8 (i) (ii)); and

there are no comments regarding ‘Disclosure of Major Contracts’ (clause 9.6).

15.14 Victoria Police

The report is a comprehensive document with a strong focus on accountability for performance results. The first part of the report concentrates on the discussion and analysis of the key performance indicators relating to the corporate objectives and the different output groups. The second part provides a detailed coverage of the initiatives, projects and activities undertaken during the year.

The key performance indicators on effectiveness and efficiency include policing hours relative to budget allocations, crime rates, road tolls as well as community satisfaction ratings with policing service. The report, however, has not included:

- the presentation of targets in all cases;
- a discussion and analysis of past performance trends; and
- a systematic benchmarking comparison with the results achieved by similar Agencies in other Australian jurisdictions and with national averages. (Such data is available from the Steering Committee on the Review of Commonwealth/State Service Provision established by the Council of Australian Governments).

The Committee is pleased to note that the Agency has developed a comprehensive set of performance measures under the ‘The Way

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1150 Victoria Police, 2002-03 Annual Report, pp.6-17
1151 Ibid, pp.21-59
Forward – Five Year Plan’ that will allow for better assessment of the impact of policing services on the community. The new accountability and performance management framework is claimed to be more outcome-focused and is designed to enable the Government and the community to more effectively measure the performance of the Agency.1152

The second part of the report provides a useful coverage of initiatives, projects and ongoing activities although the level of details could be reduced. However, assessment of performance has been made difficult because of the absence of details on those initiatives that were planned for the 2002-03 year. There are also references to different kinds of statistics and workload data on such matters as homicides, calls for assistance, crime stopper arrests and number of public complaints.

Victoria Police is one of the few Agencies that provided a commentary on the outlook for the next financial year.1153 The Committee believes that this Section can be further enhanced with some comments on the likely impact of the external operating environment on the operations of the Agency.

There are a number of compliance issues in relation to the annual reporting Directions issued by the Minister for Finance:

- omission of balance sheet data from the ‘Summary of Financial Results’ and no commentary on past trends (clauses 9.1.3 (ii)(a) and (b));
- performance measures and targets for occupational health and safety matters not disclosed (clause 9.8.2);
- no explanations for the major variances between actual and budget figures in the Budget Portfolio Outcomes Statements (clause 9.10.2 (iii)); and
- deficient disclosure relating to material contracts (clause 9.6).

The report also has not fully complied with the disclosure requirements specified in the Premier’s circular No. 2003/3 on ‘Whole of Government Reporting on Responsiveness to Cultural Diversity, Women, Youth and Indigenous Affairs’.

1152 Ibid, p.63
1153 Ibid, pp.62-63
15.15 VicRoads

The report provides extensive information on initiatives and projects implemented during the year as well as a good coverage of the key performance indicators on road development and management.

The Committee’s review has identified the following ways in which future performance reporting can be improved:

- throughout the report, key performance indicators and statistical data are shown for different aspects of VicRoads operations including:
  - Road System Management and construction projects;\textsuperscript{1154}
  - road/bridge improvement contract performance;\textsuperscript{1155}
  - project environmental protection strategies and environmental incidents;\textsuperscript{1156}
  - travel delay, variability of travel time and actual travel speed;\textsuperscript{1157}
  - road safety;\textsuperscript{1158}
  - registration and licensing;\textsuperscript{1159} and
  - WorkCover performance.\textsuperscript{1160}

The above data is useful in assisting readers in making judgements about the effectiveness and efficiency of VicRoads’ performance in meeting its objectives. However, the data needs to be accompanied by targets, where appropriate, and also adequate commentaries on the results achieved and past trends. These have not been provided in the report.

- the report states on page 52 that Ausroads collects and collates 36 National Performance Indicators (NPIs) on the Australian and New Zealand road systems and the road authorities. The indicators are grouped under 11 sections including road safety,

\textsuperscript{1154} VicRoads, 2002-03 Annual Report, pp.18 and 19  
\textsuperscript{1155} Ibid  
\textsuperscript{1156} Ibid, p.17  
\textsuperscript{1157} Ibid, p.25  
\textsuperscript{1158} Ibid, p.32  
\textsuperscript{1159} Ibid, p.39  
\textsuperscript{1160} Ibid, p.46
environment, construction and maintenance, travel time and user satisfaction. A benchmark comparison of VicRoads’ performance against the NPIs should be included in future reports;

• vast details have been included on initiatives, projects and ongoing activities. This information should be reduced and, instead, the report should only concentrate on comparing the key initiatives and projects against plans. The 2002-03 report has not given any information on what initiatives VicRoads set out to deliver;

• the ‘Highlights’ Section\textsuperscript{1161} only focuses on major initiatives implemented together with a few references to quantitative key performance indicators. This Section should be replaced by a more comprehensive ‘Overview’ Section; and

• the report does not have a Section on ‘Future Directions’ commenting on the future operating environment and developments as well as future plans and major projects that are designed to further improve performance.

The report has the following deficiencies in relation to the disclosures prescribed by the Directions issued by the Minister for Finance:

• clause 9.1.3 (ii)(a) requires ‘a summary of the financial results for the year together with the comparative results for the preceding four financial years’ to be disclosed. The summary is required to include an abbreviated Statement of Financial Performance. The report, however, has only given the operating surpluses and deficits for the current and previous four years;

• clause 9.1.3 (ii)(b) requires ‘a summary of significant changes in financial position during the year’ to be shown. This requirement is normally met by Agencies with the inclusion of an abbreviated Statement of Financial Position that is accompanied by a commentary on major changes from last year. No such information has been provided in the report;

• no information has been included on occupational health and safety matters (clause 9.8(i)(ii)); and

\textsuperscript{1161} Ibid, p.6
the information provided on the application of the merit and 
equity principles (page 60) is inadequate (clause 9.1.3(i)(e)).

15.16 Melbourne Water

The report is a well-structured document and has a number of features 
that help to enhance the quality of the performance information 
presented. The most notable aspects are the inclusion of:

- a comprehensive set of quantitative key performance indicators 
for assessing the achievement of the corporate goals;\(^\text{1162}\) and 

- a summary of disappointments and challenges for each of the 
five priority areas.\(^\text{1163}\)

The Committee believes that the usefulness of the summaries of 
disappointments can be further enhanced with some additional 
comments on ‘lessons learned’ and remedial actions taken. Most of the 
annual reports produced by Victorian Departments and Agencies do not 
give a balanced presentation as they report mainly ‘good news’ and 
make few references to disappointments and setbacks.

The Committee’s review of the report has identified the following areas 
where further improvements can be made:

- throughout the ‘Review of Operations’ Section, there are 
references to a number of key performance indicators relating 
to, for example, sewage spills\(^\text{1164}\) and greenhouse gas emissions. 
The commentaries on the indicators are generally buried 
among the fine print and the targets often are not mentioned in 
the analysis. The Committee noted most of the indicators are 
shown at the back of the report and in the Appendices.

- the table of key performance indicators shown on pages 40 and 
41 does not give any explanations for the major variances 
between targets and actual results. The Committee believes that 
it would be useful to present the previous year’s actual results 
together with the performance targets that are disclosed in the 
Statement of Corporate Intent.

\(^{1162}\) Melbourne Water 2002-03 Annual Report, pp.40-41
\(^{1163}\) See for example, Ibid, p.6
\(^{1164}\) See for example, Ibid, p.20
The Committee suggests that in future all the major key performance targets and results for each of the five priority areas be analysed and discussed in the ‘Review of Operation’ Section:

- while the report provides a detailed account of initiatives and activities undertaken, there is no summary of priority initiatives reported against those that were planned for 2002-03;
- the goals shown on page 3 do not fully correlate with those stated in the ‘Review of Operations’ Section;
- the ‘Five Year Financial Summary’ is not accompanied by a commentary on past trends;\footnote{Ibid, p.44} and
- the Agency’s performance reporting can be further improved with the inclusion of an ‘Overview’ Section and a Section on ‘Future Directions and Developments’.

The report has not complied with the following disclosure requirements as specified in the Directions issued by the Minister for Finance:

- a statement on workforce data for the current and previous financial year (clause 9.1.3 (i)(e));
- the information shown on pages 30 and 31 is not directly related to the extent of compliance with the building and maintenance provisions of the Building Act (clause 9.1.3 (ii)(h)); and
- the report has not disclosed the total fee paid to each consultancy that was in excess of $100,000 (clause 9.1.3 (ii)(f)).

Also, the report has not made any disclosure in compliance with the Premier’s Circular No. 2003/3 on ‘Whole of Government Reporting on Responsiveness to Cultural Diversity, Women, Youth and Indigenous Affairs’.

15.17 National Gallery of Victoria

The whole report contains an excessive amount of low-level details relating to the different operations of the National Gallery of Victoria (NGV) such as conservation, acquisitions, exhibitions, education, marketing and commercial activities. While those details would be of great interest to the arts community the Committee takes the view that
they are not essential for the purpose of accountability to Parliament, the Government and the general community for the use of taxpayers’ money.

The key issue is the report tries to be ‘all things to all people’ i.e. an accountability medium, an information booklet and a public relations document. The Committee believes that those details that are of interest only to the arts community (but not of a stewardship and accountability nature) can and should be disseminated by other information booklets and also placed on the NGV’s website.

Apart from the above general issue, from the point of view of performance reporting, the Committee has noted the following major shortcomings that need to be addressed:

- the vision and mission of the organisation have not been stated;
- the National Gallery of Victoria Act has prescribed only one single broad objective for the organisation that is ‘to contribute to the enrichment of the cultural, educational, social and economic life of the people of Victoria’. This objective is too general in nature to be used for performance assessment. The NGV, therefore, needs to develop a set of more specific objectives covering the major aspects of its operations;
- throughout the report, there are occasional references to key performance indicators but they are mainly concerned with levels of activities rather than being measures of efficiency and effectiveness. The following are some examples:
  - number of visitors to the Gallery;
  - number of participants in Public, Member and School Programs;
  - percentage increase in retail sales; and
  - number of collection items restored or repaired.

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1166 Council of Trustees of the National Gallery of Victoria, 2002-03 Annual Report, p.7
1167 Ibid, p.12
1168 Ibid, p.25
1169 Ibid, p.32
1170 Ibid, p.41
many completed initiatives and programs are referred to in the report but they have not been compared with those that were planned for the 2002-03 year;

the report has not included any information on outputs (including performance targets and results) nor any details with regard to the organisation’s corporate governance and risk management arrangements;

the ‘NGV 2002/2003 Highlights’ Section\(^{1171}\) is basically a calendar of major events. It should be replaced by a more comprehensive ‘Overview’ Section;

the ‘Financial Summary’ Section\(^{1172}\) is deficient in a number of respects as it has not provided:

- any summarised balance sheet data for the past five years;
- any comments on the past trends for the operating results and financial position; and
- an outline of the financial management issues dealt with during the year.

‘The Year Ahead’ Section is only a calendar of planned events rather than having a strategic focus. The report needs a separate Section at the end to deal with the future operating environment and developments as well as future plans and major initiatives that are designed to further improve the NGV’s performance.

The NGV needs to develop key performance indicators to properly measure the efficiency and effectiveness of its operations. Those measures can include surveys of stakeholders’ satisfaction and various financial targets for the commercial activities. In the case of stakeholder surveys, the details of the methodologies adopted must be provided so that the validity of the results can be judged by the readers of the report.

Performance information (including key performance indicators) should be used to indicate the extent of progress made in meeting the NGV’s objectives during the year. The Committee believes that performance assessment can be further assisted by the provision of an analysis of trend data.

\(^{1171}\) Ibid, p.10
\(^{1172}\) Ibid, p.59
In relation to accountability for the management of the Gallery’s collection assets, the Committee suggests that the following stewardship reporting regime should be adopted. Those matters that need to be covered in the annual report include:

- the quantum and functions of the major categories of collection assets;
- the non-financial benefits of the assets to the community;
- arrangements for public access and use;
- restrictions on the Gallery’s use and disposal of the assets;
- the current physical condition of the assets;
- the conservation and preservation policies of the Gallery;
- an estimate of the annual costs of conservation and preservation;
- details of significant acquisitions and sales during the year; and
- a mix of qualitative and quantitative measures of performance focusing on the different operational aspects such as conservation, preservation, acquisition, disposal and access.

The inclusion of this information would establish a framework for use by the NGV in the preparation of its future annual reports. It is recognised that perhaps not all of the suggested changes can be adopted in the first year as, for example, some of the information and performance data may not be available.

Also, the Committee has noted that the workforce data provided has not included any comparatives for the previous year as required by clause 9.1.3 (i)(e) of the Directions issued by the Minister for Finance.

### 15.18 Parliamentary Joint Services Department

The report has provided a detailed account of the initiatives, projects and activities undertaken during the year by the various operational units within the Department.

In terms of performance reporting, there are a number of notable aspects including:
Chapter 15: Review of Annual Reports of Departments and Agencies

- a comparison of the client satisfaction rating results for the different operating units with the targets set;\textsuperscript{1173}
- commentaries on the key initiatives and projects (including explanations for instances of delay);\textsuperscript{1174} and
- an outline of the key priorities for 2003-04 and the Department’s strategic focus.\textsuperscript{1175}

The Committee recommends that a new financial commentary section be incorporated in future reports providing:

- a summary of financial data over a five year period;
- explanations for major changes from previous year’s financial results and position; and
- a discussion and analysis of past trends.

The Committee is pleased to note that the Department has adopted its previous recommendation to include additional disclosures on the following matters in the report:

- a comparison of the output targets (including output costs) specified in the State Budget with actual performance against those targets;\textsuperscript{1176}
- a chart setting out the organisational structure of the Department;\textsuperscript{1177}
- a statement on workforce data and a general statement on the application of the merit and equity principles;\textsuperscript{1178}
- use of consultants;\textsuperscript{1179}
- a statement on compliance with the building and maintenance provisions of the Building Act 1993;\textsuperscript{1180} and

\textsuperscript{1173} Joint Services Department, 2002-03 Annual Report, p.8
\textsuperscript{1174} See for example, Ibid, p.8
\textsuperscript{1175} See for example, Ibid, p.10
\textsuperscript{1176} Ibid, p.10
\textsuperscript{1177} Ibid, p.5
\textsuperscript{1178} Ibid, p.21
\textsuperscript{1179} Ibid, p.20
\textsuperscript{1180} Ibid
The Committee is of the view that the above disclosures are appropriate for adoption by the Department although it is not required to follow the Directions issued by the Minister for Finance under the *Financial Management Act 1994*.

### 15.19 Department of Legislative Assembly

The reporting of performance is based on the framework established by the Business Plan with a clear linkage to each of the five goals.

In the review of operations section, there is a reference to a satisfaction rating obtained from a web-based survey of stakeholders (i.e. Members, electorate officers and parliamentary officers). This is an indicator of the effectiveness of the services provided by the Department. However, the report has not given any further information on the survey methodology nor the details of any subsequent organisational improvement initiatives implemented in response to the feedback provided by the survey.

Most of the review of operations section is concerned with the provision of comments on the actions taken in respect of the initiatives, events and activities as identified in the Business Plan.

The Committee believes that the overall report could be further improved with:

- a discussion and analysis of the three-year trend data on the Department’s performance in delivering its major outputs;
- a commentary on the Legislative Assembly Expenditure Statement and the Joint Investigatory Committees Expenditure Statement (both of which show actual and budget figures for 2002-03 together with actual figures for the previous year);
- the inclusion of the details of the various appropriations received by the Department; and
- a separate Section on ‘Highlights and Challenges’ to be located at the beginning of the report.

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1181 Ibid
1182 Department of Legislative Assembly, 2002-03 Annual Report, p.15
15.20 Department of Legislative Council

The report is like an information booklet with large amount of minor (albeit interesting) details on activities, events and initiatives presented under each of the six departmental goals. The inadequacy of the performance information on effectiveness and efficiency and output delivery is evident.

The Committee noted that, throughout the report, the only reference to measures of performance is to the results of a customer satisfaction survey conducted during the year.\textsuperscript{1183} However the results have not been analysed against targets nor have the details of actions taken to improve performance, in the light of the results, been disclosed. No information is provided regarding outputs results and targets or those key initiatives that were planned for implementation in 2002-03.

The statistical trend data on workload (e.g. sitting days and hours\textsuperscript{1184} and average length of daily sittings\textsuperscript{1185}) is useful but it should be analysed and explained to provide a better insight into the changing demands on the services provided by the Department.

The report could also benefit from the inclusion of a separate Section on future outlook and developments (including details of key priority actions for next year). The report, on the whole, is very much a retrospective document with little forward-looking information or comment.

15.21 Victorian Parliamentary Library

The report has a strong emphasis on accountability for performance and has been written in a clear and concise manner. Overall, there is adequate information to demonstrate effectiveness and output performance.

The performance reporting framework has several key features including the provision of information and commentaries on:

- the needs and expectations of the key stakeholders;\textsuperscript{1186}

\textsuperscript{1183} Department of Legislative Council, 2002–03 Annual Report, p.1
\textsuperscript{1184} Ibid, p.19
\textsuperscript{1185} Ibid, p.20
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- the results of an independent survey of Members of Parliament on the level of satisfaction with the services provided (i.e. effectiveness indicators);\textsuperscript{1187}
- the key initiatives (including Parliament-wide initiatives) implemented during the year;\textsuperscript{1188}
- output targets and results as well as other relevant statistical data;\textsuperscript{1189}
- problems and setbacks encountered by the organisation such as a reference to the Parlynet 2002 changeover problems\textsuperscript{1190} and also the challenges presented by the large scale turnover of staff and Members of Parliament during the year; \textsuperscript{1191} and
- the future operating environment and the organisation’s planned priorities and actions.\textsuperscript{1192}

The Committee recommends that future reports should also incorporate details of:

- the organisation’s vision, mission, objectives and responsibilities;
- the targets set for the measures of effectiveness and efficiency;
- the key initiatives planned for the current year so that they can be compared with the actual results achieved; and
- an Output Group Schedule showing the revenue (i.e. budget funding), expenses, assets and liabilities for the current and previous year.

\subsection{15.22 Department of Parliamentary Debates}

The ‘Year in Review’ Section\textsuperscript{1193} of the report has a number of aspects that have contributed to the high standard of performance reporting. The positive features include:

\begin{itemize}
\item 1186 Victorian Parliamentary Library, 2002–03 Annual Report, p.2
\item 1187 Ibid, p.9
\item 1188 Ibid, p.7
\item 1189 Ibid, p.13
\item 1190 Ibid, p.9
\item 1191 Ibid, p.18
\item 1192 Ibid, p.10
\item 1193 Department of Parliamentary Debates, 2002-03 Annual Report, p.7
\end{itemize}
• a detailed analysis of output performance focusing on the quality and timeliness aspects;

• explanatory comments on the output measures as well as changes to those measures; and

• a statement on the service standards and an analysis of the workload indicators (including their implications for future operations).

Completed initiatives and projects are also reported but their descriptions do not closely correspond with those in the Business Plan. This has made it impossible to determine how successful the Department was in achieving its plans.

Other suggestions for future reports are to incorporate:

• an Output Group Schedule showing the revenue, expenses, assets and liabilities for the current and previous year;

• other additional key performance indicators to account for the achievement of objectives (e.g. use of surveys to determine the satisfaction levels of Members of Parliament and other key clients and staff); and

• a caption for each of the photographs in the report explaining the work context.
Report on the 2002-03 Budget Outcomes
Chapter 16: Review of Corporate and Business Plans of Departments and Agencies

Key Findings of the Committee:
16.1 As part of the review of the 2002-2003 Budget outcomes, the Committee conducted an examination of the corporate and business plans of a number of Departments and Agencies. The main purpose of the review was to identify ways to enhance the usefulness of the plans as frameworks for accountability and, in particular, for assessing achievement of outputs, objectives and Government outcomes.

16.2 A number of common problems were noted among the plans. These include:

- insufficient information on the strategic and policy context and also on the linkages between departmental outputs and objectives and the Government’s desired outcomes;
- less than adequate set of performance measures and targets were incorporated for assessing the achievement of objectives and outcomes;
- target dates or timelines not specified for projects and initiatives identified for implementation during the planning period;
- lack of reference to cross-agency and whole of government planning issues and the related measures of individual Agencies’ contribution to the joint outcomes; and
- omission of information on other key issues such as benchmarking comparisons, future operating environment, financial outlook, critical success factors and risk management strategies.
Key Findings of the Committee (continued):

16.3 The Committee strongly believes that there is an urgent need for a new and comprehensive Guide on corporate and business planning to be developed jointly by the Department of Treasury and Finance and the Department of Premier and Cabinet. The new Guide should specify the standardised elements for the plans. This will not only overcome many of the deficiencies in the existing plans but will also ensure that a best practice and consistent approach is applied across the Victorian Public Sector.

16.1 Introduction

Since May 2001, as part of the review of Budget outcomes, the Committee has adopted a practice of examining the corporate and business plans of Departments and Agencies. Corporate and business plans are documents which describe what service outputs and outcomes Departments and Agencies are required to produce as part of the whole of government planning and resource allocation frameworks. The corporate plan normally has a three to five year outlook and is the statement of direction (i.e. the Government’s desired outcomes and priorities and the Department’s supporting objectives). The annual business plan however has a one year timeframe and it maps the process (i.e. outputs and initiatives) to achieve those outcomes and objectives.

Both the corporate and business plans provide the frameworks for accountability and, in particular, for determining whether Departments and Agencies were successful in achieving their outputs, objectives and outcomes. The performance analysis and evaluation is required to be documented in the annual reports and also fed into the following year’s planning cycle.

In the Victorian Public Sector, the framework for all planning is set by Government policy as articulated in the Growing Victoria Together strategy and other policy statements. The Growing Victoria Together strategy sets out the Government’s key policy goals over the medium to long term. Specifically, eleven important issues considered important to Victorians are linked to forty-two priority actions and thirty-five measures of progress by which to assess achievement. All Departments and Agencies
are required to direct their activities towards meeting the Government’s desired outcomes and priorities.

16.2 New guide needed for corporate and business planning

Over recent years, Victorian Governments have implemented significant reforms to management and accountability practices across the public sector which have important implications for corporate and business planning. The reforms have been directed at a more performance oriented public sector.

One of the key reform initiatives is the Victorian Performance Management and Reporting Framework. Two of the major objectives of that Framework are:\[1194\]

- to improve strategic planning in the public sector, through the identification of high-level Government desired outcomes, and the establishment of clear and improved linkages to corporate planning and business planning processes; and
- to ensure resource allocation decisions are made in the context of the Government’s strategic policy directions.

The current Guide available to Departments and Agencies on corporate and business planning is only in draft form and it was issued by the Department of Treasury and Finance in 1996. The Committee is strongly of the opinion that there is an urgent need for a new and comprehensive Guide to be developed jointly by the Department of Treasury and Finance and the Department of Premier and Cabinet. Although the issue of a new Guide has been foreshadowed by the Department of Treasury and Finance for a number of years, the document has still not yet been developed.

The Committee believes that the new Guide to corporate and business planning should specify the standardised elements for the plans. This will not only overcome many of the deficiencies in the existing plans but will also ensure that a best practice and consistent approach is applied across the public sector.

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1194 Victorian Auditor-General, Report on Performance management and reporting – progress report and a case study, April 2003, p.3
In its Report on the 2001-2002 Budget Estimates, the Committee made a number of recommendations in regard to the form and content of the new Guide. In that report, it was also recommended that: 1195

Recommendation No. 7, (iii) the corporate and business plans of Departments be reviewed and endorsed by the relevant Portfolio Ministers and the Minister for Finance acting on behalf of the Government in its role as ‘owner’ of the businesses and as purchaser of outputs; and (iv) the performance measures of Departments be developed with external advice where considered appropriate and they be aligned with comparable measures of similar bodies (i.e. benchmarking of performance).

To date, apart from limited benchmarking of performance, neither of the above recommendations has yet been adopted by Departments and Agencies.

16.3 Review of corporate and business plans

The Committee’s 2002-03 Budget Outcomes questionnaire requested Departments and Agencies to forward a copy of their corporate and business plans. The focus of the Committee’s review of these plans was on determining:

- the adequacy of the coverage of the plans; and
- how to enhance their usefulness as frameworks for accountability and, in particular, for assessing achievement of outputs, objectives and outcomes.

A number of common problems were identified among the plans and they are summarised below:

- most of the corporate plans have not included, as part of the strategic and policy context, a clear explanation of the relevant important issues, priority actions and measures of progress under the *Growing Victoria Together* strategy. In general, there are considerable variations in the extent to which the key elements of the strategy have been incorporated in the plans;
- only a small number of Departments and Agencies have given a clear commentary on the linkages between the Government’s

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desired outcomes and departmental objectives, strategies and outputs;

- a number of the plans have not incorporated a sufficient range of performance measures and targets to be used for assessing the achievement of objectives and Government outcomes. In some cases, there are only occasional references to such data throughout the documents;

- quite a few of the plans have only included limited measures of performance in relation to organisational management and capability building;

- some of the corporate plans have omitted to include brief details of the major output groups and the related performance measures and targets;

- in a large number of cases, target dates or timelines have not been specified for the planned projects and initiatives thus making it difficult to monitor progress and hold Departments and Agencies accountable for performance;

- instead of focusing on the priority matters, some of the projects and initiatives stated in the plans are of a relatively minor nature. Also, the descriptions of the projects and initiatives sometimes can be quite vague and non-specific which would hinder the assessment of performance;

- very few of the plans have addressed cross-agency and whole of government planning issues and the related measures of individual Agencies’ contribution to the joint outcomes;

- it is useful to include a commentary on the future operating environment and developments, as well as the organisation’s planned responses to the key challenges, but this has only been done in some of the corporate plans;

- a large proportion of the plans do not contain a separate section on the financial outlook incorporating a commentary as well as high level data (e.g. summarised projected financial and budget statements);

- only a minority of the plans have included an ‘Overview’ Section. This section normally provides a background context
for the readers of the plan giving brief information on such matters as the role of the Department, manner of establishment, legislative charter (where applicable), organisation structure, staff numbers and funding levels. In this section, the Chief Executive Officer often outlines the key focus of the organisation for the planning period. The Committee believes that such a Section is useful in helping readers to gain a better understanding of the Plan; and

- other common problems noted include the omission of information on key issues such as benchmarking comparisons, critical success factors and risk management strategies.

The detailed results of the Committee’s review of the Corporate and Business Plans are set out below:

16.3.1 Department of Premier and Cabinet - Corporate Plan for 2001—04

This corporate plan has identified the Government’s desired outcomes, the departmental objectives, responsibilities and key priorities, external forces and influences and the Department’s planned responses to those challenges. The document, therefore, has provided some useful information on the strategic directions of the Department as well as its key priorities and challenges over the medium term.

However, many of the important elements that are essential for ex-post assessment of achievement of objectives and the Government’s desired outcomes have not been addressed in the plan. The Committee’s main concerns are:

- there is no reference to the vision and mission of the Department.
- the plan has not disclosed any quantitative key performance indicators in relation to the achievement of departmental objectives nor measures of progress for the priority actions under the Growing Victoria Together strategy.
- there is a list of ‘Key Priorities for 2001-2003’ (Table 1 – pages 16 and 17) that are linked to the four departmental objectives. The ‘Key Priorities’ are mainly related to planned projects and
initiatives. The Committee has a number of specific difficulties with the information provided:

- some of the projects and initiatives are expressed in rather vague terms and therefore the outputs or results that are planned to be delivered are not clear. For example, two of the projects listed are only described generally as ‘Advancing policy development on key Growing Victoria Together elements’ and ‘Coordination of a whole of government position on population policy’.

- target dates or timelines for the completion of projects and initiatives have not been given in some cases where they should be. In the absence of such yardsticks and also given the lack of specificity for a number of the initiatives, it would not be easy for the Department to carry out an effective monitoring of progress and to properly measure under or over performance. Similar concerns also apply to the specific priorities identified for implementation under the ‘Organisational Development Plan’ (page 18).

- although the plan is for a three year period (i.e. 2001-04), the ‘Key Priorities’ disclosed in the Table only cover the first two years (i.e. 2001-03). In other words, no details on the ‘Key Priorities’ for the third year have been given.

Given the above, the Committee’s view is that the Department would have difficulty in achieving its aim of using the planning and reporting structure ‘to monitor departmental performance against Government outcomes’ as stated on page 19 of the plan.

Apart from these issues, the Committee believes that the Department’s future plans should also include the following additional information:

- brief details on the major output groups together with a selection of the more significant performance measures and targets;

- comments on the critical success factors. (Organisational development has been mentioned as a major factor in the plan);
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- a separate Section on ‘Financial Outlook’ incorporating a commentary as well as high-level data (e.g. summarised projected financial and budget statements); and
- explanations for all graphs, charts and diagrams. No explanations have been provided for the charts shown on pages 12 and 14.

16.3.2 Justice Portfolio - Strategy Plan for 2000—03

The Three Year Strategy Plan for the Justice Portfolio is a robust and comprehensive document setting out:

- the key social policy priorities of the Government, the Justice Portfolio policy outcomes and departmental objectives;
- the initiatives and outputs to be delivered under the medium term strategies;
- the key performance indicators to be used to measure the achievement of departmental objectives and the delivery of outputs; and
- an Asset Investment Program with specified milestones.

As the Strategy Plan covers a three year period, the Committee’s view is that it should have been prepared in the form of a Corporate Plan focusing on the high level strategic issues of the Portfolio. The contents of the plan should include matters such as the vision, mission, objectives and key priorities and initiatives of the Department over the medium term. At present, the document is a combination of both the corporate and business plans as it also contains many of the common elements of an annual action plan. Those elements include planned initiatives and outputs for the next twelve months and key performance measures and targets for the outputs.

The plan has a number of other positive features such as giving information on the sources of the performance data as well as timelines for the delivery of the initiatives over the planning period.

There is also a separate Section on ‘Support for the Provision of Services’ showing planned initiatives that are aimed at enhancing organisational management and capability.
In relation to the strategic aspect of the existing plan, the Committee has noted a number of matters:

- details of the vision and mission of the Portfolio as well as an analysis of the operating environment have not been provided although they are important in facilitating a better understanding of the purposes and directions of future operations;

- there is insufficient information on the different areas of the portfolio’s core business and its major customers and stakeholders;

- the critical success factors of the Portfolio have not been identified in the plan. These factors generally reflect the considerations that are critical to the achievement of the priorities and objectives. Also, they have a major influence on the ways the operational plans and the risk management strategies of the Portfolio are developed;

- the plan has provided details of the performance indicators to be used to measure the achievement of the departmental objective, but the targets for those indicators have not been shown. It is not clear whether the targets are presently available for performance monitoring and reporting purposes;

- the plan has not provided any information on the financial outlook of the Portfolio, including summarised projected financial and budget statements; and

- an ‘Overview’ Section at the beginning of the document would be useful in providing a background context for the readers, giving brief information on such matters as the roles of the Portfolio; the organisational structure; major strategic challenges; staff profiles and numbers as well as budget funding levels.

The Committee’s review of the Strategy Plan has also identified the following issues in relation to the operational components (i.e. the business planning aspect):

- the plan contains a vast amount of details on the projects and initiatives to be undertaken over the three year period. The
Committee’s view is that all the minor initiatives can be deleted, and relegated to the Divisional Plans, without detracting from the main focus of the document; and

- the output performance targets for the 2002-03 year have not been included in the plan.

The Committee further suggests that future annual business plans also include projected financial and budget information for each of the output groups for the next twelve months, as well as an Outcomes Evaluation Plan.

16.3.3 Department of Treasury and Finance - Corporate Plan for 2001—04

The plan is a succinct document presenting the vision, mission, principles, objectives, strategic priorities, outputs and major initiatives/projects of the Department. There is a diagram describing the Department’s planning framework but a number of the key elements of that framework are not covered in the document. The major omissions are:

- the Government’s desired outcomes and the ‘measures of progress’ of the related ‘priority actions’, in so far as they are linked to the core business of the Department;

- the key performance measures and targets for the departmental objectives;

- an explanation of the linkage between the Government’s desired outcomes and the objectives and strategies of the Department; and

- target completion dates or timelines for the major initiatives identified for the planning period.

To provide readers with a better insight into the strategic planning context, the Committee suggests a separate Section be included to deal with the Department’s operating environment, as well as the challenges that it faces and the planned responses to those challenges.

In addition, the coverage of the document needs to be extended to incorporate a number of other matters such as corporate governance and organisational issues, operational strategies (including cross agency
strategies), critical success factors, stakeholders’ expectations and financial and budgetary outlook.

16.3.4 Department for Victorian Communities - Corporate Plan for 2003—06

The corporate plan appears to have been formulated in a general and non-specific way. Many of the essential elements normally embodied in a robust planning document are absent. The Committee is therefore of the view that, whilst the document provides a reasonable indication of the strategic direction of the Department, it cannot be used effectively as a reference point for ex-post accountability of performance outcomes.

The major concerns of the Committee are:

- the plan has not provided any information on the key performance indicators for each of the five departmental objectives nor the linkages between the objectives and the Government’s desired outcomes and ‘priority actions’.

- the ‘Measuring Success’ Section is intended to identify measures to be used to assess progress in improving outcomes for communities. However, the Committee found that most of the so-called ‘measures’ are seldom linked to aims and objectives. The following are some examples:
  - ‘People feel a strong sense of belonging to their community’.
  - ‘Community facilities are used for a greater range of purposes’.
  - ‘Government information is more accessible to a greater range of communities’.

To effectively judge the degree of success of the Department in achieving its objectives, appropriate quantitative performance measures and targets need to be established, including the following:

- throughout the plan, there is a vast amount of descriptive detail on strategies, initiatives, programs and ongoing activities under each of the objectives and also in the Section ‘Our Focus’ (pages 8 and 9). Some of the descriptions are vague and non-specific. Unless the initiatives and programs are clearly specified and are
accompanied by target completion dates or timelines, it would be difficult to hold the Department accountable for the performance results;

- the organisational information needs to be expanded to include an organisation chart, staffing profiles and numbers and corporate governance and risk management arrangements;

- details regarding the output groups and the budget allocations to each of the groups should be provided; and

- the plan should also disclose projected financial and budget information together with appropriate commentaries.

### 16.3.5 Department of Education, Employment and Training - Corporate Plan for 2000—03

This corporate plan provides an extensive discussion and analysis of the Department’s external and internal environments as well as the challenges facing the Department and the planned responses to those challenges. The document also sets out the Government’s policy context and the Department’s mission, objectives, strategies and priorities.

The Committee has identified the following ways in which further improvements can be made to the planning document:

- a statement on the Government’s desired outcomes and their linkages to the departmental objectives and outputs;

- performance measures and targets for the seven departmental objectives (in addition to the three performance targets established by the Government);

- an additional objective dealing with organisational capability building;

- details of how the Department’s contribution to the outcomes of cross-agency initiatives is to be measured;

- target dates or timelines for the key policy initiatives to be implemented during the three year planning period;

- an outline of the corporate governance structure, including risk management strategies;
• a description of the organisational structure, including a staffing profile; and

• additional Sections on critical success factors, stakeholders, as well as budgetary and financial outlook.

The Committee has found the list of ‘Departmental priorities’ for each of the objectives to be too long and detailed. Also, a large number of the key strategies have been described in a non-specific way. Better explanations are required if the strategies are to be properly understood by readers.

16.3.6 Department of Innovation, Industry and Regional Development - Corporate Plan for 2002—07

The corporate plan does not provide a clear picture of where the Department is heading; how it intends to get there; and how the degree of success will be measured. As a result, what is contained in the plan is not adequate to effectively hold the Department accountable for its performance.

More specifically, the Committee’s review of the plan has identified the following major issues that require attention by the Department:

• in setting out the strategic context, there is no commentary on the inter-relationships between the Department’s outputs and objectives and the Government’s vision and priorities;

• the environmental analysis is basically a series of bullet points with no commentaries on:
  - the likely impact of the external and internal factors on future operations; and
  - the Department’s planned responses to the challenges.

• for the measurement of achievement of the strategic objectives, the document has presented a list of ‘target outcomes’ for the period 2002-07. Those targets, however, have only been framed in general terms rather than being quantitative and objective measures of performance. The following are examples of how some of the targets have been described:
  - increase in level of export intensity;
- growth in Gross Capital Formation;
- global recognition of Victoria as a place to do business;
- growth in level of employment; and
- increased capacity building through infrastructure facilitation in regional Victoria.

- the plan has not given any indication of those priority initiatives that are planned to be implemented over the five year period, together with target dates or timelines;
- the explanation of the governance model is not adequate and should be expanded to also incorporate the Department’s risk management arrangements; and
- all future plans should also provide a summary of the output groups as well as high-level projected financial and budgetary information, including funding allocations for the outputs.

**16.3.7 Department of Infrastructure - Corporate Plan for 2003—06**

The contents of the 2003–06 corporate plan are similar to those of the 2002-05 plan. However, the following additional matters have been included:

- a Section dealing with the Government’s commitments to strengthen Victoria’s transport, ports, major projects, energy and information and communication technology infrastructure;
- an outline of the Department’s key priorities over the three year period;
- a brief description of the Department’s resources including operating budgets and asset expenditure budgets; and
- a discussion and analysis of the key issues relevant to the achievement of each of the Department’s outcomes, which gives a background context to the related strategies and actions.

A positive aspect is that the suite of quantitative key performance indicators has been expanded and refined since the previous plan. For the key infrastructure projects, target completion dates have also been
specified. The Committee would like to see target completion dates provided for the major initiatives identified under each of the outcomes.

The corporate plan should be further expanded to include:

- a risk analysis and the Department’s planned responses;
- a brief commentary on the critical success factors;
- projected budgetary and financial information; and
- a brief description of the various output groups and the major categories of stakeholders.

16.3.8 Environment Protection Authority - Corporate Plan for 2002—03

The document is a combination of a corporate plan and an annual business plan. However, the Committee has found that the contents of the document did not incorporate a number of the major elements that are normally expected to be included in each of these documents.

In future, two separate plans should be prepared with the corporate plan adopting a strategic focus and covering a three to five year period and the business plan concentrating on operational issues for the next twelve months.

Although the document presents a lot of detailed information on ‘things that are planned to be done’, it is not clear as to how the outcomes and success of the Authority are to be measured as part of the accountability process. This is despite a comment that the Authority’s performance is monitored formally ‘… by measurable improvement in environmental quality’. 1196

Below are comments on the corporate planning and business planning parts of the document.

Corporate planning

The first part of the document provides information and commentaries on the corporate values, role and functions, operating environment as well as the ‘Four Pillars’ (i.e. issues of importance) of the Authority and the Government priorities. In addition, a comparative table has been included on budget funding for the seven Key Result Areas for the three year period ended 30 June 2003.

1196 Environment Protection Authority, 2002-03 Corporate Plan, p.5
A major deficiency is the omission of information on the Authority’s mission and vision as well as the absence of quantitative measures of achievement of the stated strategic goals. The linkage to the Government’s desired outcomes on the protection of the environment and sustainable use of resources has also not been adequately explained.

The Committee is aware that comprehensive performance indicators have been developed by a number of Environment Protection Authorities in other Australian jurisdictions (including New South Wales) and are published as part of the annual ‘State of the Environment’ reports.

For each Key Result Area, the document has provided an explanation of the strategic context and an indication of the strategic goal as well as details of the planned initiatives and deliverables. For a number of the initiatives and deliverables, target dates or timelines can and should be set, but this has not been done in some cases, thus making ex-post accountability difficult.

In addition, the Committee believes that the quality of the corporate planning document can be further enhanced by incorporating comments on other matters such as strategies (including joint agency strategies), critical success factors, stakeholders, corporate governance and risk management and projected financial and budgetary position over the medium term.

**Business planning**

Apart from those initiatives and deliverables earmarked for the next twelve months, the document has not given any information on the planned outputs and the related performance measures and targets. Other information that should form part of the business planning document includes resourcing details, capital, information technology and human resources plans as well as projected financial and budget data for the next twelve months.

**16.3.9 Auditor General’s Office - Corporate Plan for 2001—04**

The corporate plan states that one of the aims of the Auditor-General’s Office is to ‘develop a performance management and reporting framework that ensures external reporting of performance against corporate goals in a clear and transparent manner’.1197 In the
Committee’s view, the comprehensiveness of the contents of the plan go a long way in helping the Office to achieve that aim.

Apart from the usual elements such as outcomes, objectives, strategies and environmental scan, the Office is one of the few agencies that have actually incorporated in the plan quantitative key performance measures and targets for each of the five objectives. Another positive feature is there are clear explanations on how the performance data and information will be collected, allowing readers to make a judgement on the validity of the reported results.

The Committee only has a few suggestions to make on an otherwise exemplary document. The Committee believes that the future plans could benefit from the inclusion of an outline of the Office’s:

- corporate governance and risk management arrangements; and
- projected financial and budgetary position (including summarised projected data).

Also, the Office should establish quantitative performance targets to measure the levels of satisfaction of the Public Accounts and Estimates Committee, agencies and other key stakeholders with the services provided. This will allow the satisfaction levels as well as trends to be monitored from year to year.

16.3.10 Auditor-General’s Office — Annual Plan for 2002-03

The Annual Plan is a robust and comprehensive document setting a new standard in business planning within the Victorian Public Sector. The plan contains all the key elements that are normally expected to be found in a business plan and each element has been explained in a clear and succinct manner.

The first part of the plan sets out the strategic direction and context covering the usual matters such as corporate purpose, outcomes, objectives, performance measures and targets, strategies and priority areas. The second part of the plan outlines and explains the proposed work program for the next twelve months and identifies the output measures and targets and resource requirements (including the estimated costs of the outputs).
Another notable aspect of the plan is the insight that it has provided into the organisational capability building initiatives of the Office (as part of the balanced scorecard planning approach).

The Committee recommends that future plans also include the following:

- quantitative targets for those performance measures that are related to feedback from clients and other stakeholders in regard to the services provided by the Office. The targets in the plan are expressed only in general terms such as ‘positive assessments by’, ‘are satisfied with’ and ‘increasingly positive responses’.

- a commentary on the post-audit quality assurance reviews planned for next year and how previous reviews have influenced the current Annual Plan and the strategies and operations of the Office, as part of the continuous improvement process. (This is the ex-ante element of the quality assurance accountability regime. The ex-post element is the reporting of the summaries of the results of the reviews in the annual reports as required by the Audit Act).

16.3.11 VicRoads - Corporate Plan for 2002—04

The corporate plan has provided a useful description of VicRoads’ road management and development objectives and strategies as well as the whole of government infrastructure and transport strategies and outcomes.

To indicate how the organisation’s objectives are to be achieved, the plan has disclosed a series of initiatives and ongoing activities against each of the objectives. The Committee noted that targets dates or timelines have not been specified for the initiatives (except for those identified in the Action Plan to improve organisational effectiveness – pages 13 to 18). Also, some of the initiatives have been described in a non-specific way.

A further issue is that the plan does not present any quantitative key performance measures and targets for the assessment of the achievement of objectives. Performance measures and targets can be set in some cases for example, ‘to improve transaction efficiency and generate increased revenue to close the cost/revenue gap’ and ‘to reduce congestion and improve travel times for public transport, freight and commuter
vehicles’. The Committee has noted that, in a few instances, performance targets have been referred to in the 2002-03 annual report, although they have not been identified in the plan.

Because of the quality of the planning information, the subsequent tracking of performance would be difficult. This is despite a claim by the Chief Executive in the ‘Foreword’ Section that achievements against the plan will be recorded in VicRoads’ annual reports.1198

The plan has also not incorporated a number of other key elements including an external environmental analysis, planned responses to challenges, corporate governance and risk management arrangements, critical success factors as well as financial and budgetary outlook.

16.3.12 Department of Human Services — Business Plan for 2002-03

The annual business plan of the Department of Human Services for the 2002-03 year has some positive aspects but also a number of areas will require future attention.

The early parts of the plan set out the policy and strategic context and provide some useful details on:

- the Government’s vision as well as those strategic issues of importance and priority actions that are the primary responsibility of the Department;
- the mission, objectives and values of the organisation; and
- the operating environment including the key challenges and implications for the Department and the planned responses to those challenges.

The introductory Sections would assist the readers in gaining a better understanding of the planning context. The business plan also has other positive features including:

- the implied endorsement of the plan by the three responsible Ministers by virtue of the inclusion of a ‘Ministers’ Foreword’;
- a clear identification of the aims, strategies and key targets and milestones for each of the service priorities earmarked for 2002-03;

1198 VicRoads, 2002–04 Corporate Plan, p.4
• explanatory comments provided on a number of the output targets set for 2002-03; and

• a discussion and analysis on the projected financial statements, including explanations for some of the projected changes from the previous year’s actual and budget figures.

Whilst the Department’s business plan has presented some useful information, the Committee can see scope for further improvement in the following areas:

• those Government’s desired outcomes that are identified in the plan are only based on the Growing Victoria Together strategy. References also need to be made to other broader outcomes for which the Department has a primary responsibility for program delivery.

• more work is required to further strengthen the accountability elements of future plans including expanding and refining:
  - the performance indicators for measuring the Department’s contribution to the achievement of the Government’s desired outcomes;
  - the ‘measures of progress’ used to assess performance against the Government’s strategic ‘issues of importance’; and
  - the performance indicators used in assessing the achievement of the departmental objectives and, in particular, the effectiveness and quality aspects of service delivery.

• for each service priority area, key targets and milestones are shown in the plan. The Committee has noted two particular issues in relation to the targets:
  - some of the targets are expressed only in qualitative (rather than quantitative) terms (typical examples being ‘to improve average age of physical infrastructure’; ‘to reduce tenancy turnover’; and ‘to improve organisational climate index results’). Targets framed in such a way are not capable of providing objective measures of performance; and
- the targets disclosed for a number of service priority areas are not sufficient, in the Committee’s opinion, to adequately measure effectiveness and efficiency. An example is in relation to the priority area ‘better services for public housing tenants’. The targets for this area only refer to planned expenditures on maintenance, upgrades and improvements but the stated objectives are directed at such matters as higher tenant satisfaction and successful tenancies and communities.

- the plan has not included any information on cross-agency performance issues nor the benchmarking of the Department’s performance against its counterparts in other Australian jurisdictions. The Committee is aware that interstate performance data is available and is published by the Steering Committee on the Provision of Commonwealth/State Services;

- there is an absence of a Section dealing with the ‘ownership’ interests of the Government in terms of planned actions to enhance the ongoing capability of the organisation, particularly in the areas of human resources, information technology, financial management and capital facilities; and

- the organisational chart is useful but it needs to be accompanied by some explanatory comments on the structure and the staff profiles and numbers.

16.3.13 Department of Education and Training - Annual Plan for 2002–03

The Annual Plan is a comprehensive and informative document designed to provide readers with:

- an overview of the Government’s vision, goals and targets for education and Training in Victoria;

- information on departmental objectives, strategies and priority initiatives;

- milestones that identify systematic change necessary to achieve the goals and objectives; and

- performance targets for the different output groups.
There are four main issues that the Committee has identified in the plan:

- the Department has adopted the Government’s five goals for education and training in Victoria as its own objectives, together with the inclusion of one additional objective related to youth. The Government has set performance measures and medium term quantitative targets for three of its goals and they are shown in the plan, together with actual results achieved for the previous two years. The Committee is concerned that the plan has not specified any performance measures and targets for the following three objectives of the Department which are important for assessing effectiveness and outcomes:
  - increase the percentage of adults taking up education and training and so increase the overall level of educational attainment and literacy levels in Victoria;
  - make near-universal participation in post-school education and training the norm in our society; and
  - develop and lead whole of government initiatives to improve the outcomes of all young Victorians.

- although there are performance measures and targets in the plan, they mainly relate to the assessment of the quantity and quality aspects of the outputs rather than the achievement of objectives and outcomes.

- some of the milestones in the plan have been expressed as ‘aims’ rather than planned results to be achieved. This would hinder the assessment of performance results. Some typical examples are:
  - better reporting to parents or students in Government schools to support students’ learning and family/school partnerships;
  - post-compulsory provision and funding made more flexible to increase access and participation for learners across all education and training sectors;
  - promote the outstanding teaching and research capacity of the Victorian higher education sector to …; and
- encourage young people from across the State to participate in debate on youth issues ....

- the plan has not provided any information on the projected financial and budgetary positions in respect of the 2002-03 year. Also, the document should have included a projected operating statement for each of the output groups as part of the financial aspects of the plan.

16.3.14 Parliamentary Departments - Corporate Plan for 2002-05

The corporate plan details the Direction, Purpose, Values and Goals for the Parliamentary Departments together with a commentary on the external and internal environments.

For each of the five goals, the plan has specified a set of performance measures and targets. The Committee is concerned with the way in which a significant proportion of the targets have been expressed. Instead of reflecting objective and quantifiable measures, they only state:

- how the achievement of the goals will be assessed; or
- the action or strategy to be adopted to achieve the objectives; or
- an intended qualitative rather than quantitative outcome.

The following are examples of the problematic targets stated in the plan:

- ‘we will seek to ensure that Members and other clients are consistently satisfied with the services provided’ (A target percentage satisfaction rate should have been given in this case);

- ‘the quality of our services will be measured by Members and other clients. We will also measure the strength of our relationships with customers’;

- ‘we will improve inter-departmental co-operation through increased consultation, communication, joint decision making and accountability’; and

- ‘we will maintain an appropriate level of security consistent with efficient Parliamentary operations’.
There is also an absence of information on the financial outlook. A separate Section should be included to provide a commentary on the projected financial and budgetary positions as well as high level projected data for the planning period.

The plan would also benefit from the inclusion of an Overview Section at the beginning giving brief information on the functions of the Parliamentary Departments, staff resources and major output groups.

16.3.15 Department of Sustainability and Environment - Corporate Plan for 2003-06

This is the Department’s first corporate plan. It is intended to set out the ‘overall direction of the Department’ and provide a ‘guiding framework’ for the three-year period.

The key features of the plan include:

- an overview of the Department;
- an outline of the Government’s desired outcomes and policy commitments on environmental protection and sustainability;
- an explanation of the policy and strategic context as well as the rationale for each of the six departmental objectives (a useful feature not commonly found in departmental plans);
- a summary of key initiatives for 2003-06 linked to each of the objectives; and
- a separate Section on how progress towards the achievement of the objectives is to be measured.

While the plan has some useful aspects from the point of view of readers, the Committee has identified the following matters that require future attention:

- target dates or timelines have not been provided for the key initiatives (where appropriate) thus making the subsequent tracking of performance difficult;
- although performance measures for each of the objectives are shown in the ‘Monitoring Progress’ Section, the targets for
those measures over the three year period have not been provided;

• the plan should also have included:
  - an analysis of the operating environment and future developments and an outline of the Department’s planned responses to key challenges; and
  - brief details of major outputs to be delivered together with the related costs and performance targets.

16.3.16 Melbourne Water Corporation — Catchment to Coast — Strategic Plan

The strategic plan is a clear and succinct document providing information on:

• ‘who we are’, ‘what we do’ and ‘who we work with’; and

• key priority areas, goals, objectives, including underlying rationales and strategies.

A notable feature of the plan is that most of the objectives have been expressed as quantitative targets. The following are some examples:

• 15% reduction in water consumption by 2010; 1199
• 20% water recycling by 2010; 1200
• 35% reduction in greenhouse gas emissions by 2006; 1201
• 100% biosolids recycled by 2010. 1202

However, a few of the objectives have been stated only in qualitative terms although, in the opinion of the Committee, measurable (and, in some cases, progressive) targets could be set. Examples of those objectives are:

• the community rates Melbourne drinking water as good or very good; 1203

1199 Melbourne Water, Catchment to Coast, July 2003, p.4
1200 Ibid
1201 Ibid, p.6
1202 Ibid
1203 Ibid, p.4
all our customers rate our services as good or very good,\textsuperscript{1204} and

all natural waterways in good condition by 2025.\textsuperscript{1205}

Qualitative targets, such as the three above, cannot be objectively measured. Therefore, Melbourne Water should set target satisfaction ratings for the first two examples and also objective measures of ‘good condition’ in respect of the natural waterways.

The Strategic Plan would also benefit from the inclusion of:

- a separate Section on the operating environment and future developments and the organisation’s planned responses to key challenges; and
- appropriate projected financial and budget data accompanied by a discussion and analysis on the financial outlook.

\subsection*{16.3.17 Parliamentary Departments - Business Plan for 2003-06}

The Parliament’s business plan 2003-06 is in addition to the corporate plan 2002-05 for Parliamentary Departments and the annual business plan of each individual Parliamentary Department.

The purpose of the Parliamentary Departments’ business plan is to specify all the major whole of Parliament projects and initiatives for the planning period. The projects and initiatives have all been allocated a target completion date and an accountable officer and have also been specifically linked to each of the five goals in the Corporate Plan.

It is a useful document setting out the key priorities for the Parliament as a whole, thus providing a common focus for all the Departments over the three year period.

\subsection*{16.3.18 Parliamentary Joint Services Department - Business Plan for 2003-04}

The business plan is a comprehensive document that can be used as an effective framework to hold the Department accountable for its performance.

\textsuperscript{1204} Ibid, p.12

\textsuperscript{1205} Ibid, p.9
Apart from the background information in relation to the strategic context, the main part of the plan focuses on the identification of:

- the departmental objectives that are designed to achieve the Parliament’s corporate goals;
- the projects and initiatives earmarked for 2003-04, together with target completion dates; and
- performance measures and quantitative targets that are linked to the objectives.

The Committee suggests the plan needs a commentary on the projected financial and budgetary positions for 2003-04, including summarised data.

16.3.19 Department of the Legislative Council - Annual Plan for 2003—04

The Annual Plan is in two parts. The first part - Business Descriptions and Strategic Context - summarises the Department’s longer term direction, purpose, values and goals as well as making references to its financial and human resources. The second part - Strategies and Priorities – identifies departmental strategies and priorities for 2003-04.

The Committee’s review of the plan has identified the following main issues:

- target dates have been set for most of the initiatives earmarked for 2003-04. The only issue that the Committee wishes to raise is the Department should have specified target satisfaction ratings for the feedback from the public about some of the major events to be conducted e.g. 2003 Youth and Student Parliaments and 2004 Parliament House Open Day (page 13).

- the plan has not given any information about:
  - the amounts and sources of Parliamentary appropriations to be provided;
  - the performance measures and targets to be used to assess the achievement of departmental objectives e.g. stakeholder satisfaction ratings;
- the outputs to be delivered and the related performance targets and costs; and
- the projected financial and budget positions for 2003-04.

16.3.20 Department of the Legislative Assembly - Business Plan for 2003-04

A feature of the business plan not found in the similar plans of the other Parliamentary Departments is the inclusion of a Section on the ‘key drivers’ for the plan and the Department’s planned responses to those drivers. The information is useful in highlighting the main focus of the organisation for the 2003-04 year.

The plan has provided a suite of performance measures and targets particularly in relation to the quality, quantity and timeliness aspects of its operations. In addition, target dates have been set for the major projects and initiatives earmarked for the 2003-04 year.

However, there are two major omissions from the document namely:

- a statement on the mission and goals of the Department; and
- details of the budget estimates for 2003-04.

16.3.21 Parliamentary Library - Business Plan for 2003-04

The main part of the plan sets out the goals, initiatives and expected outcomes of the Parliamentary Library for the 2003-04 year.

Some of the outcomes are in the nature of projects or initiatives and the Library’s success can be measured by reference to their completion. However, with a number of the other outcomes, the plan has not given any indication as to how they are to be assessed nor the details of the performance targets set. The following are some examples of those outcomes:

- access to Parlyweb content is simplified;
- MPs are kept abreast of latest developments in their area of interest;
- clients use more productive research techniques;
• improved work area and work practice; and
• staff skills enhanced for knowledge management work.

Future plans should also provide details of projected financial and budget positions; output groups and related performance measures and targets; and staff profile and numbers.

16.3.22 Department of Parliamentary Debates - Business Plan for 2003-04

The business plan is an exemplary document providing a full coverage of the key elements that are normally expected to be found in such a plan. The main features include:

• mission, goals, role, service standards and key clients and partners of the organisation;
• descriptions of outputs and the related performance measures and targets (together with last year’s comparatives);
• priority initiatives and budget estimates for 2003-04.

The only suggestion for improvement is to include target satisfaction ratings for the surveys of clients and staff to be conducted in the next financial year.

16.3.23 Parliamentary Joint Investigatory Committees - Annual Plan for 2003-04

The Annual Plan for 2003-04 provides an account of the proposed work program and performance measures and targets for the eleven Parliamentary Joint Investigatory Committees. This is the first Annual Plan prepared by the Committees since funding for the Committees moved from Special Appropriation to the Parliament’s annual Appropriation Act.

To enable assessment of performance, the plan has included details of output performance measures and targets as well as target dates for the completion of discussion/issues papers (where appropriate). All reports to Parliament as identified in the plan are scheduled to be completed within the 2003-04 year.
The only other matters that, in the Committee’s view, should also be incorporated in future plans are details of budget estimates (showing major categories of expenses) as well as a profile of the supporting staff for the Committees, including staff numbers.
Chapter 16: Review of Corporate and Business Plans of Departments and Agencies

Report adopted by the Public Accounts and Estimates Committee at its meeting held on 15 April 2004 in the Legislative Council Committee Room at Parliament House, Melbourne
Appendix 1: Acronyms and Abbreviations

AAS  Australian Accounting Standards
ABS  Australian Bureau of Statistics
ACAS  Aged Care Assessment Services
ACE  Adult and Community Education
ACFE  Adult, Community and Further Education
ACMI  Australian Centre for the Moving Image
AHC  Australian Hospital Care (Latrobe) Pty Ltd
AIM  Achievement Improvement Monitor
ANTA  Australian National Training Authority

CBD  Central Business District
CMA  Catchment management authority
COAG  Council of Australian Governments
CORE  Public Correctional Enterprise
CPI  Consumer Price Index

DET  Department of Education and Training
DHS  Department of Human Services
DOCA  Deed of Company Arrangement
DOI  Department of Infrastructure
DIIRD  Department of Innovation, Industry and Regional Development
DOJ  Department of Justice
DPC  Department of Premier and Cabinet
DPI  Department of Primary Industries
DSE  Department of Sustainability and Environment
### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>DTF</td>
<td>Department of Treasury and Finance</td>
</tr>
<tr>
<td>DVC</td>
<td>Department for Victorian Communities</td>
</tr>
<tr>
<td>EBA</td>
<td>Enterprise Bargaining Agreement</td>
</tr>
<tr>
<td>EC</td>
<td>Exceptional Circumstances</td>
</tr>
<tr>
<td>EFT</td>
<td>Equivalent Full Time</td>
</tr>
<tr>
<td>EGMs</td>
<td>Electronic Gaming Machines</td>
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<tr>
<td>EPA</td>
<td>Environment Protection Authority</td>
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<tr>
<td>FRD</td>
<td>Financial Reporting Direction</td>
</tr>
<tr>
<td>ESC</td>
<td>Essential Services Commission</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GST</td>
<td>Goods and Services Tax</td>
</tr>
<tr>
<td>GVIR</td>
<td>Growing Victoria infrastructure reserve</td>
</tr>
<tr>
<td>GVT</td>
<td>Growing Victoria Together</td>
</tr>
<tr>
<td>HARP</td>
<td>Hospitals Admissions Risk Program</td>
</tr>
<tr>
<td>HDM</td>
<td>Hospital Demand Management</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technologies</td>
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<tr>
<td>IRI</td>
<td>International Roughness Index</td>
</tr>
<tr>
<td>IT</td>
<td>Information technology</td>
</tr>
<tr>
<td>LAP</td>
<td>Learning Assessment Program</td>
</tr>
<tr>
<td>LRH</td>
<td>Latrobe Regional Hospital Pty Ltd</td>
</tr>
<tr>
<td>LRH Public</td>
<td>Latrobe Regional Hospital Public</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>MAFRI</td>
<td>Marine and Freshwater Resources Institute</td>
</tr>
<tr>
<td>MCC</td>
<td>Melbourne Cricket Club</td>
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<tr>
<td>MCEETYA</td>
<td>Ministerial Council on Education, Employment, Training and Youth Affairs</td>
</tr>
<tr>
<td>MCG</td>
<td>Melbourne Cricket Ground</td>
</tr>
<tr>
<td>Melbourne Water</td>
<td>Melbourne Water Corporation</td>
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<tr>
<td>MIP</td>
<td>Managed Individual Pathways</td>
</tr>
<tr>
<td>NAP</td>
<td>National Action Plan for Salinity and Water Quality</td>
</tr>
<tr>
<td>NEGA</td>
<td>National Express Group (Australia)</td>
</tr>
<tr>
<td>NGO</td>
<td>Non government organisations</td>
</tr>
<tr>
<td>NGV</td>
<td>National Gallery of Victoria</td>
</tr>
<tr>
<td>NPI</td>
<td>National Performance Indicator</td>
</tr>
<tr>
<td>NSW</td>
<td>New South Wales</td>
</tr>
<tr>
<td>OJD</td>
<td>Ovine Johne’s Disease</td>
</tr>
<tr>
<td>P–2</td>
<td>Prep to Year 2</td>
</tr>
<tr>
<td>P–4</td>
<td>Prep to Year 4</td>
</tr>
<tr>
<td>Parlynet</td>
<td>Parliament of Victoria communication network</td>
</tr>
<tr>
<td>PIMS</td>
<td>Prisoner management system</td>
</tr>
<tr>
<td>PROV</td>
<td>Public Records Office Victoria</td>
</tr>
<tr>
<td>PTC</td>
<td>Public Transport Corporation</td>
</tr>
<tr>
<td>RFC</td>
<td>Rural Finance Corporation</td>
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<tr>
<td>RIDF</td>
<td>Regional Infrastructure Development Fund</td>
</tr>
</tbody>
</table>
### Report on the 2002-03 Budget Outcomes

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMIT</td>
<td>Royal Melbourne Institute of Technology University</td>
</tr>
<tr>
<td>SARS</td>
<td>Severe Acute Respiratory Syndrome</td>
</tr>
<tr>
<td>SAU</td>
<td>State Administration Unit</td>
</tr>
<tr>
<td>SEMCL</td>
<td>South Eastern Medical Complex Limited</td>
</tr>
<tr>
<td>SJGE</td>
<td>Snowy Joint Government Enterprise</td>
</tr>
<tr>
<td>SOE</td>
<td>Standard operating environment</td>
</tr>
<tr>
<td>SRVA</td>
<td>Seal Rocks Victoria (Australia) Pty Ltd</td>
</tr>
<tr>
<td>STI</td>
<td>Science, Technology and Innovation</td>
</tr>
<tr>
<td>TAFE</td>
<td>Technical and Further Education</td>
</tr>
<tr>
<td>TCP</td>
<td>Technology Commercialisation Program</td>
</tr>
<tr>
<td>TEI</td>
<td>Total Estimated Investment</td>
</tr>
<tr>
<td>THM</td>
<td>Transitional Housing Management</td>
</tr>
<tr>
<td>TPAMS</td>
<td>Telecommunications, Purchasing and Management Strategy</td>
</tr>
<tr>
<td>VAGO</td>
<td>Victorian Auditor-General’s Office</td>
</tr>
<tr>
<td>VCAA</td>
<td>Victorian Curriculum and Assessment Authority</td>
</tr>
<tr>
<td>VCAL</td>
<td>Victorian Certificate of Applied Learning</td>
</tr>
<tr>
<td>VCE</td>
<td>Victorian Certificate of Education</td>
</tr>
<tr>
<td>VERS</td>
<td>Victorian Electronic Records Strategy</td>
</tr>
<tr>
<td>VET</td>
<td>Vocational education and training</td>
</tr>
<tr>
<td>VGS</td>
<td><em>Victorian Greenhouse</em> Strategy</td>
</tr>
<tr>
<td>VLESC</td>
<td>Victorian Learning and Employment Skills Commission</td>
</tr>
<tr>
<td>VPS</td>
<td>Victorian public service</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>VPS 2</td>
<td>Victorian Public Service officer band 2</td>
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<tr>
<td>VPS 3</td>
<td>Victorian Public Service officer band 3</td>
</tr>
<tr>
<td>VPS 4</td>
<td>Victorian Public Service officer band 4</td>
</tr>
<tr>
<td>VPS 5</td>
<td>Victorian Public Service officer band 5</td>
</tr>
<tr>
<td>VRAD</td>
<td>Victorian Regional Aquaculture Development Program</td>
</tr>
<tr>
<td>VicRoads</td>
<td>Roads Corporation</td>
</tr>
<tr>
<td>VicTrack</td>
<td>Victorian Rail Track</td>
</tr>
<tr>
<td>VicUrban</td>
<td>Victorian Urban Development Authority</td>
</tr>
<tr>
<td>YEL</td>
<td>Youth Employment Link</td>
</tr>
</tbody>
</table>
Report on the 2002-03 Budget Outcomes
Appendix 2: List of Departments Providing Responses to Committee’s Questions

The following Departments responded to the Committee’s questions relating to the 2002-2003 Budget Outcomes:

Education and Training
Human Services
Infrastructure
Innovation, Industry and Regional Development
Justice
Parliamentary Departments
Premier and Cabinet
Primary Industries
Sustainability and Environment
Treasury and Finance
Victorian Communities

Victorian Auditor-General’s Office
Environment Protection Authority
## Government Responses to the Recommendations of
PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE’S
51\textsuperscript{st} Report on the 2000-2001 Budget Outcomes

Pursuant to Section 36 of the Parliamentary Committees Act 2003, this paper provides a response to the recommendations contained in the Public Accounts and Estimates Committee’s (PAEC) 51\textsuperscript{st} Report.

**Guide for Readers:**
Following is the explanation of the format of this paper.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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</thead>
<tbody>
<tr>
<td>Chapter number and topic</td>
<td>Responsibility</td>
<td>Action Taken to Date</td>
<td>Further Action Planned</td>
</tr>
</tbody>
</table>

**Row 1:** Indicates the number and topic of the response to the PAEC recommendations.

**Row 2:** Indicates the Department with primary responsibility for responding to the recommendation as outlined in the PAEC Report.

**Column 1:** Contains the PAEC’s recommendations as published in its 51\textsuperscript{st} Report.

**Column 2:** Indicates the Government’s response to each recommendation (Accept, Accept in Part/Principle, Under Review or Reject).

**Column 3:** Indicates those actions relevant to the implementation of the recommendation that have been taken to date.

**Column 4:** Indicates the additional actions planned that are relevant to implementation of the recommendation, together with an explanation of the Government’s position concerning the recommendation.
### Recommendation 2.1: (page 83)

<table>
<thead>
<tr>
<th>PAEC Recommendation</th>
<th>Response</th>
<th>Action Taken to Date</th>
<th>Further Action Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>The explanations for the variations between budget and actual operating expenses contained in the Annual Financial Report for the State of Victoria be presented under the various classifications of operating expenditure.</td>
<td>Reject</td>
<td>Explanation of variations are often presented in meaningful descriptions by project or major incident that may impact across a number of account classifications, within the Statement of Financial Performance.</td>
<td>No further action will be taken on this recommendation.</td>
</tr>
</tbody>
</table>
### Recommendation 3.1: (page 89)

The ‘Our Year in Summary’ section contained in the annual report of the Department of Premier and Cabinet be replaced by an ‘Overview’ section that briefly comments on:

- **(a) significant issues and developments for the current year and future directions and outlook for the following year (including both positive and negative factors);**
  
  **Accept**
  
  Information on the key aims and achievement of the Department of Premier and Cabinet (DPC) is disclosed in summary form as part of the DPC at a glance section of the annual report. Further explanation of the aims and achievements is further supported by detailed disclosures on an output basis by output basis.

- **(b) major projects/initiatives completed against plans, as well as projects/initiatives planned for the following year;**
  
  **Accept**
  
  Refer to recommendation 3.1(a) response.

- **(c) key performance targets and results achieved; and**
  
  **Accept**
  
  As required by the Standing Directions of the Minister for Finance, this information is included in the annual report.

- **(d) the financial results for the year.**
  
  **Accept**
  
  Refer to recommendation 3.1(c) response.
### Recommendation 3.2: (page 97-98)

<table>
<thead>
<tr>
<th>PAEC Recommendation</th>
<th>Response</th>
<th>Action Taken to Date</th>
<th>Further Action Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) presenting information on key outputs within output groups in a manner that is consistent with the Department’s output group presentation in Budget Paper No. 3.</td>
<td>Accept</td>
<td>Action has been taken to present information consistent with the Department of State and Regional Development output groups in Budget Paper No. 3 Budget Estimates (BP3).</td>
<td>No further action will be taken on this recommendation.</td>
</tr>
<tr>
<td>(b) for each output group, the key objectives, key issues, key results and future directions should be presented in a clear and concise manner and clearly linked to each key objective;</td>
<td>Accept</td>
<td>Action has been taken to present information on key issues and key results for each output group. Clear linkages to objectives have been actioned.</td>
<td>No further action will be taken on this recommendation.</td>
</tr>
<tr>
<td>(c) the linkage of each output group to the major departmental objective(s) to which they relate;</td>
<td>Accept</td>
<td>The linkages between Departmental objectives and output groups were presented in BP3, and are currently under review for both BP3 and the annual report.</td>
<td>No further action will be taken on this recommendation.</td>
</tr>
<tr>
<td>(d) the linkage of output performance measures and their actual outcomes for the year in the relevant sections of the annual report where output group performance is reviewed; and</td>
<td>Accept in Part</td>
<td>The output performance measures are incorporated into the annual report.</td>
<td>No further action will be taken on this recommendation.</td>
</tr>
<tr>
<td>PAEC Recommendation</td>
<td>Response</td>
<td>Action Taken to Date</td>
<td>Further Action Planned</td>
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<tr>
<td>Recommendation 3.2: (continued) (page 97-98)</td>
<td></td>
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</tr>
<tr>
<td>(a) detailed output group commentary and notes accompanying the presentation of output group data to explain the variances between established performance targets and actual measures and the performance of the Department in service delivery generally.</td>
<td>Accept</td>
<td>This recommendation continues to be progressively addressed.</td>
<td>No further action will be taken on this recommendation.</td>
</tr>
<tr>
<td>Recommendation 3.3: (page 107-108)</td>
<td></td>
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</tr>
<tr>
<td>(a) A new ‘Financial Commentary’ section be added to the annual report of the Department of Joint Services incorporating:</td>
<td>Accept in Principle</td>
<td>The structure of the Parliament being a non-profit earning entity dictates that from year to year there will be no major change in the composition of the financial statement as income received for sale of outputs will match expenditure paid in achieving those outputs. Parliament will endeavour to incorporate relevant aspects of the recommendation in future annual reports.</td>
<td>No further action will be taken on this recommendation.</td>
</tr>
<tr>
<td>i. a brief financial summary together with explanations;</td>
<td></td>
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<td>ii. key financial ratios and aggregates with an explanation of the significance of each; and</td>
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<tr>
<td>iii. a narrative preface to the audited annual financial statements in the form of an explanatory discussion and analysis.</td>
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</table>
### Recommendation 3.3: (continued) [page 107-108]

<table>
<thead>
<tr>
<th>PAEC Recommendation</th>
<th>Response</th>
<th>Action Taken to Date</th>
<th>Further Action Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) A 'Future Directions and Developments' section be included at the end of the</td>
<td>Has been incorporated into the annual report.</td>
<td></td>
<td>No further action will be taken on this</td>
</tr>
<tr>
<td>Department of Joint Services' annual report providing pertinent forward-looking</td>
<td></td>
<td></td>
<td>recommendation.</td>
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<tr>
<td>information and comments such as:</td>
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<tr>
<td>i. a discussion of the major issues and events that are likely to have a</td>
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<tr>
<td>significant impact on the Department; and</td>
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<tr>
<td>ii. an outline of what the Department aims to achieve in the future, particularly</td>
<td></td>
<td></td>
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<td>in the next year and objective measures of performance.</td>
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<tr>
<td>Accep t</td>
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</table>
**Recommendation 3.4:** (page 110)

Future annual reports of the Victorian Parliamentary Library include:

(a) details of the Department’s vision, mission, roles and responsibilities; and

<table>
<thead>
<tr>
<th>PAEC Recommendation</th>
<th>Response</th>
<th>Action Taken to Date</th>
<th>Further Action Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Future annual reports of the Victorian Parliamentary Library include:</td>
<td>Accept</td>
<td>The Parliament’s vision, mission, roles and responsibilities are now included in the annual report.</td>
<td>No further action will be taken on this recommendation.</td>
</tr>
</tbody>
</table>

(b) an Output Group schedule showing the revenue, expenses, assets and liabilities for the current and previous year.

<table>
<thead>
<tr>
<th>PAEC Recommendation</th>
<th>Response</th>
<th>Action Taken to Date</th>
<th>Further Action Planned</th>
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<tbody>
<tr>
<td>Future annual reports of the Victorian Parliamentary Library include:</td>
<td>Accept</td>
<td>The output group schedule showing revenue, expenses, assets and liabilities for the current and previous year will be included in future annual reports.</td>
<td>No further action will be taken on this recommendation.</td>
</tr>
</tbody>
</table>

**Recommendation 3.5:** (page 111)

The commentaries on performance contained in the annual report of the Department of Parliamentary Debates be linked to each of the seven goals and that a clear comparison be provided between the major initiatives that the Department set out to achieve according to the Business Plan and what it did in fact achieve.

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<tbody>
<tr>
<td>The commentaries on performance contained in the annual report of the Department of Parliamentary Debates be linked to each of the seven goals and that a clear comparison be provided between the major initiatives that the Department set out to achieve according to the Business Plan and what it did in fact achieve.</td>
<td>Accept</td>
<td>Commentaries on performance are now linked to goals in the annual report. A summary of how the Parliament performed in achieving initiatives will be included in future annual reports.</td>
<td>No further action will be taken on this recommendation.</td>
</tr>
</tbody>
</table>
### Recommendation 4.1: (page 123)

**The Department of Education and Training resolve issues relating to sampling methods and error to ensure that its performance measures are reliable and produce output based information that facilitates the assessment of the Department’s performance in service delivery.**

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<td>Accept in Principle</td>
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The key sources of information for which sampling error is an issue is data collected via sample surveys by the Australian Bureau of Statistics (ABS).

The Department of Education and Training (DET) through representation on various ABS national committees and through discussions with ABS senior management has been canvassing the need for more accurate data.

Possible approaches identified to date include increasing the sample size in ABS surveys, which would reduce sampling errors, and examining alternative sources eg internal administrative systems.

DET will continue to examine how to reduce sampling error in data sourced from ABS surveys.

DET will continue to examine the feasibility of enhancing internal administrative data to supplement data currently sourced from ABS surveys.

### Recommendation 4.2: (page 127)

**The Department of Education and Training ensure that students with disabilities and impairments are identified at an early stage of their schooling and receive appropriate tuition and support.**

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</table>

The Department of Education and Training (DET) has processes in place so that schools, with the support of student support services officers, identify students from Prep onwards for potential eligibility for support through the program for students with disabilities.

Schools at which eligible students are enrolled receive supplementary funding to provide appropriate tuition and support to meet their identified educational needs.

DET will continue to monitor and evaluate the effectiveness of assessment and eligibility processes.

As part of this DET is giving consideration to the upgrading of test instruments used to determine eligibility for program support.
## Recommendation 4.3:

The Department of Education and Training resolve with the provider organisations a method of reporting provider hours that gives an accurate reflection of the delivery of student contact hours of education and training activity provided through the Adult and Community Education output.

### Accept in Principle

- Reporting of delivery of education and training in the Adult Community Education (ACE) sector conforms to the national standard (the Australian Vocational Education and Training Management Information Statistical Standard).
- The Department of Education and Training (DET) provides training and support to ACE organisations to improve the quality of reporting including information sessions for ACE organisations, and the use of online technology to improve processes.

### Action Taken to Date

- DET will continue to monitor the quality of data on delivery reported by ACE organisations, and to work with ACE organisations, peak provider organisations and the Adult, Community and Further Education Regional Councils to improve the accuracy of reporting.

### Further Action Planned

- No further action will be taken on this recommendation.

## Recommendation 4.4:

The Government review the method for formulating the performance measures for the Employer Incentive Program (Youth), Youth Employment Scheme (Government) and the Skilled Migration Unit outputs to ensure that targets established during the budget process more closely approximate the actual outcomes that have been realised over recent reporting periods.

### Accept

- This recommendation no longer applies to the Department of Education and Training. Responsibility was transferred to the Department for Victorian Communities (DVC) as a result of Machinery of Government changes. The Youth Employer Incentive Scheme was completed in 30 June 2002. The Youth Employment Scheme continues to meet its annual targets. The Skilled Migration targets were reviewed in 2002-03 to ensure that these targets reflected the aims and objectives of the programs.
- DVC reviews all performance measures and targets annually to ensure their continued relevancy and accuracy.

### Action Taken to Date

- No further action will be taken on this recommendation.

## Recommendation 4.5:

The Department of Education and Training provide information in its annual report of the average school class sizes for Prep-Year 2 by region.

### Accept

- The Department of Education and Training (DET) already monitors and reports on regional and metropolitan class size trends following the February School Census. This information is included in the annual Summary Statistics Victorian Schools publication.

### Action Taken to Date

- Regional and metropolitan trends in Prep to Year 2 class sizes will be included in DET’s future annual reports.
### Recommendation 4.6: (page 142)

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<tr>
<td>The Department of Education and Training develop performance measures that assess the effectiveness of student welfare strategies that are implemented to mitigate risks to students.</td>
<td>Accept in Principle</td>
<td>More recent student welfare strategies, such as the primary welfare officer initiative have made use of specific performance measures that will allow for the effectiveness of such strategies to be assessed.</td>
<td>A broader review of student support services and related welfare initiatives is planned during 2004. The review will include an assessment of performance measures appropriate for these services.</td>
</tr>
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</table>
# CHAPTER 6: GOVERNMENT'S RESPONSE TO THE PAEC REPORT NO. 51 – 2000-2001 BUDGET OUTCOMES

## DEPARTMENT OF HUMAN SERVICES

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<tbody>
<tr>
<td><strong>Recommendation 5.1:</strong> (page 155)</td>
<td>The number of episodes of ambulance bypass has been established as a Key Performance Indicator (KPI) for the 12 major metropolitan hospitals with 24-hour emergency Departments. In 2001-02, this KPI was monitored within the Hospital Demand Management (HDM) Strategy Framework. Ambulance bypass targets were set for each health service, and bonus funds were paid when targets were achieved. Complementary packages of initiatives designed to increase health services' capacity to deal with increased demand for emergency services were also funded in each of the major metropolitan health services. The number of ambulance bypasses in 2001-02 was reported on page 17 of the Department of Human Services Annual Report 2001-02. The number of ambulance bypasses was not reported in Budget Paper No. 3 Budget Estimates. However, Budget Paper No. 2 Budget Statement contained information about funding for the HDM Strategy, and detailed information about ambulance bypass frequency is reported to the public every quarter in the Hospital Services Report.</td>
<td>Accept in Part</td>
<td>Ambulance Bypass will continue to be a KPI within the HDM Strategy, with bonus funds attached, as it is a useful indicator of access to hospital care. Ambulance bypass frequency will continue to be reported to the public in the Hospital Services Report.</td>
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</table>

| **Recommendation 5.2:** (page 158) | The Department of Human Services develop accurate target performance measures to ensure that more realistic assessments can be made about the actual performance of service delivery under the various output groups. | Accept in Part | As far as possible, the Department of Human Services (DHS) sets performance targets that are a realistic estimate of likely service performance for the coming year (based on trends of actual service performance from previous years). However, where demand for service fluctuates, there will be variances between targets and actual performance. As part of the annual review process, targets are reassessed and adjusted according to actual service delivery, demand projections and other foreseeable changes. | DHS will continue to annually review its performance measures and targets to ensure they are realistic estimates of likely performance. |
### Recommendation 5.3: (page 161)

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<tbody>
<tr>
<td>The Department of Human Services give greater priority to developing and implementing strategies to ensure that individuals requiring residential rehabilitation, are able to have access to such facilities within an acceptable timeframe.</td>
<td>Accept</td>
<td>The Department of Human Services is committed to the further development of home-based rehabilitation services. In 2001-02, 6 home-based rehabilitation services were established and 1 existing service was expanded as part of the Hospital Demand Management Strategy. In the following year, additional funding was provided to further expand home-based rehabilitation services. In 2003-04, approximately $15 million is allocated to the provision of home-based rehabilitation services across Victoria. An evaluation of home-based rehabilitation services is currently in progress. In addition, the State Government has entered into an agreement with the Commonwealth Government to provide additional slow stream rehabilitation to people who have been assessed as requiring long-term residential care, through the Innovative Care Rehabilitation Service projects.</td>
<td>The current evaluation of home-based rehabilitation will identify the key elements to be incorporated into a best practice framework for rehabilitation services delivered in the community setting, either in a person’s place of residence or at a centre. As part of this framework, integration of home-based and centre-based rehabilitation services is planned to enable a more flexible approach to community rehabilitation service delivery and wider access to the provision of home-based rehabilitation. 2 pilot projects have commenced at Eastern Health and Northern Health, with each project to provide 15 extra places. An additional 90-bed project is due to start in March with Doutta Galla Aged Care Services.</td>
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</table>
**Recommendation 5.4:** (page 165)

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<tr>
<td>The Department of Human Services ensure that information provided to the Public Accounts and Estimates Committee in relation to its performance is based on final data, is accurate and facilitates the analysis of departmental service delivery performance.</td>
<td>Accept in Part</td>
<td>The Department of Human Services (DHS) always endeavours to provide the Public Accounts and Estimates Committee (PAEC) with accurate and final performance data. In some instances, however, DHS is only able to provide estimates of actual performance due to delays in receiving information from external agencies. 75 per cent of services provided by DHS are delivered through external service providers. These providers range from large metropolitan hospitals to small non-government organisations managed by volunteer staff. DHS collects data about service performance from these service providers (approximately 2600 in total) using a range of media, including paper-based reporting. Under these circumstances, data received by DHS is often lagged by up to 3 months. Where there are delays in receiving data from service providers, DHS may submit estimates of service performance to the PAEC. These estimates will later be adjusted to reflect actual performance.</td>
<td>DHS is working on a number of fronts to streamline and improve data collection arrangements to ensure greater accuracy and timeliness of service performance data from service providers.</td>
</tr>
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</table>
## Recommendation 5.5: (page 170)

The Department of Human Services needs to provide explanations in its annual report for major output variances between years, for example the substantial reduction in the number of clients under the Parenting and Child Development output for 2000-01 as compared to the previous year.

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<tr>
<td>Accept</td>
<td>As indicated in the response to Recommendation 5.2, performance measures and targets are largely reflective of trends in actual service performance from previous years. As far as possible, targets are a realistic estimate of likely performance, however where demand for service fluctuates, actual performance may exceed or fall short of targets. The Department of Human Services (DHS) reports variances in performance during the year through the quarterly output reporting process. Variances from year-to-year are also reported in the footnotes of the Output Statements in Budget Paper No. 3 Budget Estimates (BP3). In accordance with the Financial Management Act 1994, output information presented in the BP3 is reproduced in the DHS Annual Report, disclosing performance measures reported in the corresponding Budget Paper year, together with the actual outcome.</td>
<td></td>
<td>No further action will be taken on this recommendation.</td>
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## Recommendation 5.6: (page 171)

The Department of Human Services implement strategies to ensure that the proportion of child protection cases requiring finalisation within the benchmark figure of 90 days improves and that unmanageable backlogs of cases requiring investigation are avoided.

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<tr>
<td>Accept in Part</td>
<td>The 90-day performance measure was discontinued in 2003-04 because it no longer reflects best practice. Increased case complexity has resulted in a higher proportion of cases requiring ongoing support. Promising results from the Innovation Projects, which commenced in 2002-03, suggest that more sustained involvement can reduce the level of renotifications.</td>
<td>A 'Breakthrough Collaborative', which is designed to improve regional performance on cases requiring investigation, has been underway since July 2003. Work on this initiative will continue in the second half of 2003-04.</td>
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### Key Recommendations and Action Taken

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<tr>
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<tbody>
<tr>
<td>Recommendation 5.7:</td>
<td>Accept</td>
<td>In order to continue to ensure client satisfaction with public housing, DHS will:</td>
<td>- Continue to invest in the upgrade, redevelopment and maintenance of housing stock;</td>
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<td>- Continue to implement a responsive service delivery model through the Housing Office Review;</td>
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<td>- Replace the core information technology system;</td>
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<td>- Continue to implement the high rise strategy; and</td>
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<td>- Continue the Neighbourhood Renewal Project.</td>
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- **Recommendation 5.7: (page 174)**

  The Department of Human Services determine reasons for the major decline in customer satisfaction ratings for the provision of long-term housing assistance in order to address the concerns of tenants.

  The condition of public housing stock is a major factor affecting the satisfaction levels of clients. Approximately 22,000 dwellings (30 per cent of all stock) are in excess of 30 years old. In order to improve tenant satisfaction with the condition of stock, the Department of Human Services (DHS) has significantly increased expenditure on upgrading, redeveloping and maintaining public housing.

  Another factor that influences customer satisfaction ratings is the standard of service delivery. DHS has introduced a number of initiatives to improve service delivery as part of the Housing Office Review project. Specifically, DHS has introduced a central recruitment training program that aims to ensure housing officers are both knowledgeable and client service orientated. DHS has also appointed Specialist Housing Services Officers to improve coordination of services for clients exhibiting complex needs.

  The National Social Housing Survey recognises that tenants view the effective delivery of maintenance services as important. The establishment of a maintenance call centre aims to improve satisfaction with maintenance services by providing a system that is responsive to client needs. DHS has also developed a 'high rise strategy' that provides a coordinated approach to asset management and improvement; tenancy management; and community building across 44 high rise towers throughout Melbourne. This strategy aims to ensure that high-rise buildings are positive living environments that promote client satisfaction.

  Neighbourhood Renewal is another initiative that is assisting to increase client satisfaction with public housing. The project aims to improve the social, economic, housing and environmental conditions in disadvantaged public housing communities by implementing a whole of government approach. The project also aims to engage local residents in the consultation, planning, decision-making, and strategy implementation and evaluation.
## Recommendation 6.1: (page 202)

The Director of Public Transport be responsible for monitoring the availability of automatic ticketing machines managed by OneLink Transit Systems Pty Ltd. The performance data collected should be published as public information.

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<tbody>
<tr>
<td>The Department of Infrastructure (DOI) releases information to the public on the performance of the Automated Ticketing System equipment. DOI’s 2002-03 Annual Report provides summary information under Outcome 3: Access and Mobility on ticketing system reform and performance. DOI also releases publicly Track Record, which is a quarterly performance bulletin on Victoria’s train, tram and bus services. Track Record contains detailed information on the performance of Automated Ticketing System equipment. Copies of all past issues of Track Record are available on the DOI's website (<a href="http://www.doi.vic.gov.au/transport">www.doi.vic.gov.au/transport</a>).</td>
<td>Accept</td>
<td></td>
<td>DOI will continue to make information on the performance of the Automated Ticketing System equipment publicly available on a quarterly basis.</td>
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</table>
### Recommendation 7.1: (page 210)

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<th>Action Taken to Date</th>
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<tr>
<td>The Department of Justice assess the impact that the redirection of resources from the provision of public education activities to other activities is having on the level of public knowledge about the availability of legal services.</td>
<td>Accept</td>
<td>During 2001, new eligibility criteria were introduced in order to keep Victims Referral and Assistance Services (VRAS) within budget. A cross-governmental review of Victims Services conducted in 2002 has subsequently resulted in the creation of a new Victims Support Agency to ensure a more integrated approach to provision of victims services, including the provision of public education activities.</td>
<td>No further action will be taken on this recommendation.</td>
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CHAPTER 7: GOVERNMENT'S RESPONSE TO THE PAEC REPORT NO. 51 – 2000-2001 BUDGET OUTCOMES

<table>
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<th>Further Action Planned</th>
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<tbody>
<tr>
<td>Recommendation 7.2:</td>
<td>Reject</td>
<td></td>
<td>No further action will be taken on this recommendation.</td>
</tr>
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</table>

The Department of Justice and Victoria Police assess the impact of the reduction in the total number of patrol hours, including whether the incidence of crime both reported and unreported is increasing, as a result of the ongoing diversion of police resources to the management of events.

The use of hours measures has been discontinued in the 2003-04 Budget.

**Trends in Patrol Hours**

It is evident that actual hours over the period from 1998-99 to 2002-03 trended upwards and were high relative to the increase in police numbers during the same period.

While the total number of patrol hours in 2000-01 was 2,223,000 hours, 11 per cent below the target of 2,500,000 hours, the number of patrol hours was just 2 per cent below the level of service delivered in 1999-00 (2,273,000 hours).

In the following year (2001-02) hours of patrol increased by 10 per cent to 2,463,000 and in 2002-03 those hours increased by a further 23 per cent to 3,038,000.

**Incidence of Crime**

The crime rate in Victoria has been falling. In 2002-03 the overall crime rate was reduced by 6.8 per cent (per 100,000 population). Crime against the person was reduced by 3.4 per cent and property crime by 8.3 per cent.
## CHAPTER 7: GOVERNMENT’S RESPONSE TO THE PAEC REPORT NO. 51 – 2000-2001 BUDGET OUTCOMES

### DEPARTMENT OF JUSTICE

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<td><strong>Recommendation 7.3:</strong> (page 218)</td>
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<tr>
<td>Targets and strategies established under the Victoria Police Incident and Event Management output group be reviewed to ensure they more realistically reflect the operational demands and police resource requirements in relation to the incident and event management activities undertaken by Victoria Police.</td>
<td>Accept in Part</td>
<td>The output group structure was changed for the 2003-04 budget and the former Event Management output discontinued. It is evident that there was a significant one-off increase in demand for event management during the year 2000, primarily due to the number of special events scheduled in the millennium year. While demand in 2001-02 and 2002-03 exceeded forecast by 15.4 per cent and 18 per cent respectively, that growth in demand is expected to moderate over time. The growth that has occurred (beyond forecast) during the latter 2 reporting periods can be attributed to 2 major issues – the need for public reassurance following the September 11 terrorist attack and the significant difficulties surrounding the issue of insurance coverage for community events and festivals. Police attendance at those events contributes to the actual and perceived safety of those attending.</td>
<td>No further action will be taken on this recommendation.</td>
</tr>
</tbody>
</table>
The Department of Justice incorporate as performance measures in its annual report and Budget Paper No. 3, the following road related statistics:

(a) the road toll;

(b) traffic camera program infringement notices issued;

(c) traffic camera program infringement notices that resulted in loss of license offences; and

(d) incidence of breath testing at booze buses and number of persons found to be exceeding alcohol limits.

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<tbody>
<tr>
<td>The road toll is already a key measure that is reported in the Department of Justice’s (DOJ) Annual Report as an outcome.</td>
<td>Accept in Part</td>
<td>No further action will be taken on this recommendation.</td>
<td></td>
</tr>
<tr>
<td>This recommendation has been adopted and the measure is included in the 2003-04 Budget Papers. DOJ’s Output Performance Statements are reproduced in its annual report.</td>
<td>Accept</td>
<td>No further action will be taken on this recommendation.</td>
<td></td>
</tr>
<tr>
<td>This recommendation is being evaluated for future budgets.</td>
<td>Accept in Part</td>
<td>Further action is dependant on results of evaluation.</td>
<td></td>
</tr>
<tr>
<td>This recommendation has been adopted and the measure is included in the 2003-04 Budget Papers. DOJ Output Performance Statements are reproduced in its annual report. All of these items are covered by the government’s 2002-2007 Arrive Alive! strategy and assist with the attainment of the strategy’s main purpose of reducing the road toll and road trauma.</td>
<td>Accept</td>
<td>No further action will be taken on this recommendation.</td>
<td></td>
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<tr>
<td>PAEC Recommendation</td>
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<tr>
<td><strong>Recommendation 7.5:</strong> (page 227)</td>
<td>Formal performance measures relating to the key outcomes expected of the Koori mediation program be developed and reported in the annual report of the relevant Department.</td>
<td>Accept</td>
<td>In 2002-03, 27 Koori mediators were trained through Dispute Settlements Victoria (the Department for Victorian Communities (DVC)). They are part of a mediation bank used by DVC in line with its commitment to strengthening Alternative Dispute Resolution (ADR). Mediation targets are published in the Budget Papers under the output <em>Alternative Dispute Resolution</em>. Outcomes of the ADR program were reported in the 2002-03 Department of Justice Annual Report.</td>
</tr>
<tr>
<td><strong>Recommendation 7.6:</strong> (page 228)</td>
<td>Consumer and Business Affairs Victoria develop performance measures for the annual report of the Department of Justice that show the effectiveness of its consumer awareness publications in reaching key and targeted audiences and achieving desired consumer outcomes.</td>
<td>Accept in Part</td>
<td>The effectiveness of major consumer awareness publications is evaluated, but the output of evaluation is a research report and recommendations, rather than a specific performance measure for the Annual Report of the Department of Justice.</td>
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### Recommendation 7.7: (page 230-231)

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<tr>
<td>(a) the rights of prisoners are not compromised by inappropriate housing facilities and supervision that could result from detention in police cells</td>
<td>Accept</td>
<td>As part of the 2003-04 Budget process, Victoria Police and the Department of Justice to review all police cell custody locations and the medium to long term management options for the management of police cells. This review is currently underway. The number of persons held in police cells has declined significantly since 2001.</td>
<td>The review is scheduled to be completed by June 2004.</td>
</tr>
<tr>
<td>(b) the occupational health and safety of police force members is not compromised through the increased need to supervise prison detainees; and</td>
<td>Accept</td>
<td>Refer to recommendation 7.7(a) response.</td>
<td>Refer to recommendation 7.7(a) response.</td>
</tr>
<tr>
<td>(c) operational requirements and procedures of Victoria Police are not compromised because of the added responsibility placed on members of the force to supervise additional numbers of prison detainees.</td>
<td>Accept</td>
<td>Refer to recommendation 7.7(a) response.</td>
<td>Refer to recommendation 7.7(a) response.</td>
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</table>
CHAPTER 7: GOVERNMENT’S RESPONSE TO THE PAEC REPORT NO. 51 – 2000-2001 BUDGET OUTCOMES

DEPARTMENT OF JUSTICE

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<tr>
<td>Recommendation 7.8: (page 233)</td>
<td>The Department of Justice and the Office of Correctional Services develop key performance measures related to the effectiveness of the new Victorian Prison Drug Strategy and report on this information in the annual report of the Department.</td>
<td>Accept</td>
<td>Performance measurement reporting for the Victorian Prison Drug Strategy already occurs as a reporting subset of the Corrections Long Term Management Strategy (CLTMS) performance, and as a component within the Whole-of-Government performance and reporting framework for the Victorian Government Drug Initiative (VGDI). Outcomes of CLTMS are reported in the Department of Justice’s Annual Report.</td>
</tr>
<tr>
<td>Recommendation 7.9: (page 235)</td>
<td>The Department of Justice and the Office of Correctional Services develop key performance measures related to the initiatives implemented under the ‘transition from custody to community framework’ and report on the effectiveness of these initiatives in preventing re-offending and recidivism by prisoners released into the community, in the annual report of the Department.</td>
<td>Accept in Part</td>
<td>The Department of Justice has an existing program of evaluation of the initiatives within the Corrections Long Term Management Strategy, including the transitional services initiatives. Measures of initiatives’ effectiveness in reducing recidivism is a principal issue in evaluation. The Government may release such information when it becomes available.</td>
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### Recommendation 8.1: (page 243)

The Department of Natural Resources and Environment allocate sufficient resources to ensure that the performance targets relating to the audits of high-risk or critical sites are achieved in future.

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- Accept in Part

The Department of Primary Industries strives to achieve all performance targets. Subsequent to the results of 2000-01 the following actions have occurred:

- A risk assessment of all mining and extractive sites in Victoria has been completed.
- All sites have been allocated a risk profile rating.
- Auditing of high and critical sites is a core goal in the Performance Planning System.

Following the risk assessment, all targets for 2001-02 and 2002-03 have been met.

Auditing for high and critical sites will continue to be a priority for the Minerals and Petroleum Regulation Branch.
CHAPTER 8: GOVERNMENT'S RESPONSE TO THE PAEC REPORT NO. 51 – 2000-2001 BUDGET OUTCOMES

DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENT

<table>
<thead>
<tr>
<th>PAEC Recommendation</th>
<th>Response</th>
<th>Action Taken to Date</th>
<th>Further Action Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation 8.2:</td>
<td>Accept</td>
<td>DSE is currently implementing a number of recommendations from the inquiries, including:</td>
<td></td>
</tr>
</tbody>
</table>

- The Department of Natural Resources and Environment ensure that adequate resources are directed towards meeting targets for fuel reduction burning.

- Subsequent to the Public Account and Estimates Committee recommendation, the Department of Sustainability and Environment's (DSE) fire management program has been investigated by the Auditor-General (report May 2003) and the Victorian Bushfire Inquiry VBI - report of October 2003.

- These reports made recommendations to improve the level and reporting of Fuel Reduction Burning.

- DSE has made substantial efforts to increase the level of burning this year by approving the extended employment of seasonal firefighters. This will allow Spring and Autumn burning opportunities to be taken. Burning is now a priority activity for DSE with faster burning approval processes now in place and 5 Regional fuel reduction burning coordinators engaged.

- DSE is currently implementing a number of recommendations from the inquiries, including:
  - Supplementing the current area targets for fuel reduction burning with measures that more accurately reflect the level of risk reduction being sought and achieved;
  - Fully costing fuel reduction burning activities so that appropriate funding levels and the cost of staff employed from other business units are considered;
  - Establishing more flexible funding arrangements to allow for differing levels of funding throughout the year for factors such as seasonal variations;
  - Strategies to increase the availability of accredited field supervisors and the associated workforce (eg. through greater use of weekend work and the opportunity for Country Fire Authority (CFA) volunteers to participate); and
  - Increased public information regarding the fuel reduction burning program and the measures taken to protect the environment.
## Recommendation 8.3: (page 247)

The Department of Natural Resources and Environment ensure that management plans for all of Victoria's major fisheries are completed by 2003-04.

**Response:**
Not all management plans for major fisheries can be completed within this time frame due to the complexity of the tasks as well as the need to receive Commonwealth approval for export fisheries, which needs to be completed as part of the management plan development process.

**Action Taken to Date:**
The scallop fishery and Bay and Inlet fisheries management plans will be completed over the next 5 years.

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## Recommendation 8.4: (page 251)

The annual report of the Department of Natural Resources and Environment contain detailed information regarding program achievements under the Water for Growth initiative.

**Response:**
Further information relating to the Water For Growth initiative was published in 2000-01 Annual Report.

**Action Taken to Date:**
No further action will be taken on this recommendation.

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## Recommendation 8.5: (page 254)

The Department of Natural Resources and Environment develop specific performance measures related to the restoration of environmental flows to the Snowy River, for inclusion in its annual report and Budget Paper No. 3.

**Response:**
During 2000-01 (post Budget Paper No. 3 Budget Estimates) performance measures relating to the Snowy initiative were identified and published in annual reports and subsequent Budget Papers. These include both major policy and legislative developments:
- Number of water savings projects under implementation;
- Volume of water savings under implementation; and
- Additional annual release of environment flow to Snowy River.

**Action Taken to Date:**
No further action will be taken on this recommendation.
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<thead>
<tr>
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<tbody>
<tr>
<td>Recommendation 9.1:</td>
<td>Accept</td>
<td>The capital asset charge was being under spent, as the budgeted/forecast requirements were calculated on projected asset balances based on originally projected completion dates. Certain major works (particularly the new Museum building) were delayed, with the result that the capital asset charge expense was significantly lower than anticipated and thus the funding requirement was significantly less. This matter has been addressed with the Department of Treasury and Finance (DTF) and is no longer a material issue.</td>
<td>Regular (at least annual) reconsideration of capital asset charge requirements, as compared with estimates recorded in DTF Business Management System (BMS).</td>
</tr>
</tbody>
</table>

| Recommendation 9.2: | Reject   | The $12 million allocation from the Community Support Fund in 2000-01 for a 3 year Problem Gambling Communication Strategy is under the management of the Department of Human Services. | No further action will be taken on this recommendation. |

* Recommendation 9.1: (page 258)

The Department of Premier and Cabinet determine the reasons for the continued under-expenditure of the capital asset charge on output groups, and liaise with the Department of Treasury and Finance to ensure in future years that the capital asset charge accurately reflects the cost of capital invested in departmental assets.

* Recommendation 9.2: (page 273)

The effectiveness of the Problem Gambling Communication Strategy be addressed in the annual report of the Department of Justice by providing details of actual performance against performance targets, an explanation for any variations and a comprehensive commentary on the overall performance of the strategy accompanied by key objectives and targets for the following year.
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Recommendation 10.1:</td>
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<tr>
<td>The Department of Innovation, Industry and Regional Development improve the level of performance measures and general commentary provided in the Budget Papers regarding output performance for the Industry Development output group by developing:</td>
<td>Accept in Part</td>
<td>Industry development output group was changed to Investment Facilitation and Attraction. 5 additional measures were added to the output group.</td>
<td>No further action will be taken on this recommendation.</td>
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<tr>
<td>(a) performance measures for financial and facilitated assistance provided by the Department to respective industry sectors; and</td>
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<tr>
<td>(b) performance measures for the level of investment and economic benefits, including employment, export growth and import replacement by industry sectors as a direct result of the involvement of the Department.</td>
<td>Accept in Part</td>
<td>New performance measures that relate to job creation and new investment were added to the output for 2002-03. Performance measures have been continuously reviewed to improve the standard of measurement of program outcomes.</td>
<td>No further action will be taken on this recommendation.</td>
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<tr>
<td>PAEC Recommendation</td>
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<tr>
<td>Recommendation 10.2</td>
<td>Accept in Principle</td>
<td>Regional Development Victoria currently records quantitative outcomes in terms of jobs, exports and investment flowing from business programs and investment attraction support provided at enterprise level, across the Food, Rural Commerce and Resource-based Industries groups.</td>
<td>Some qualitative assessment is currently undertaken in terms of sectoral analyses. Further work on agreed reportable measures has to be undertaken.</td>
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**Recommendation 10.3:** (page 297)

The Department of Innovation, Industry and Regional Development ensure that its annual report and Budget Paper No. 3 include detailed information about the performance of both the Domestic Tourism Marketing initiative and agreed targets relating to the Melbourne Convention and Visitors Bureau.

Accept

Domestic Tourism Marketing initiatives have been taken into account for a range of performance measures included in Budget Paper No. 3 Budget Estimates.

Performance Measures in relation to MCVB will be developed for the 2004-05 Budget Papers.
### Recommendation 10.4: (page 299)

The Department of Justice include in its annual report and Budget Paper No. 3 additional performance measures related to the Victorian racing industry.

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<tr>
<td>Reject</td>
<td>Following Machinery of Government changes in 2002, the Department of Justice (DOJ), through the Office of Gaming and Racing, is responsible for delivering the Government’s Racing Program, advising the Minister for Racing and serving as the link between the Government and the racing industry. Performance measures addressing the regulation and development of the racing industry are included in the Budget Papers under the Gaming and Racing Industry Management output, including measures relating to racing policy, licensing and grants to the Living Country Racing Program. Statistics on the economic growth of the racing industry are included in the DOJ’s 2002-03 Annual Report. It should be noted that the day-to-day management of the racing industry is the responsibility of respective controlling bodies, each of which report on industry performance measured in terms described by the Public Accounts and Estimates Committee.</td>
<td>No further action will be taken on this recommendation.</td>
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</table>
### CHAPTER 11: GOVERNMENT'S RESPONSE TO THE PAEC REPORT NO. 51 – 2000-2001 BUDGET OUTCOMES

**DEPARTMENT OF TREASURY AND FINANCE**

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<tr>
<td><strong>Recommendation 11.1:</strong> (page 304)</td>
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<tr>
<td>The detailed expenditure for each output as recorded in the financial performance section of the annual report of Department of Treasury and Finance should reconcile with the audited financial expenditure for each output group as recorded in the notes to the Department's financial statements. Where variances occur, as is the situation with expenditure incurred by the Victorian Casino and Gaming Authority, a detailed explanation should be provided.</td>
<td>Reject</td>
<td>The 'Total Output Cost for each individual Output, as recorded in the Output Performance section of the Department of Treasury and Finance (DTF) Annual Report represents the cost to government (or departmental revenue claim), not the actual expenditure incurred by DTF in relation to that Output. The above is in accordance with a Whole of Government Accounting Policy interpretation of the requirements of Ministerial Direction 9.1.2 (iii). By definition, therefore, the reconciliation sought by Recommendation 11.1 could not readily be prepared and would be of little benefit. Further, the audited financial statements are required to disclose details of revenue and expenditure for all controlled operations, by major activity. By definition, this includes activities other than the output activities covered in the Output Performance section of the annual report for example, activities of controlled Trusts. This would further complicate the reconciliation.</td>
<td>No further action will be taken on this recommendation.</td>
</tr>
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</table>

| **Recommendation 11.2:** (page 310) | | | |
| The Department of Treasury and Finance monitor the operations of VicFleet to ensure that the highest standards of client service are being maintained, and report on this matter in their annual report. | Accept | The output performance measures for the Management of Motor Vehicle Leases output will, for 2004-05, include financial and management performance against benchmarks as well as measures of customer satisfaction. The results against these measures will be reported in the Department of Treasury and Finance (DTF) Annual Report. | DTF will review the available suite of fleet management benchmarks to ensure the most appropriate benchmarks are used to assess performance. |
### Recommendation 12.1:

Where targets set by the Parliamentary Departments have not been met, the Departments should provide detailed information for the variations in their annual reports.

- **PAEC Recommendation:**
  - Where targets set by the Parliamentary Departments have not been met, the Departments should provide detailed information for the variations in their annual reports.

- **Response:**
  - Accept

- **Action Taken to Date:**
  - This disclosure will occur in the future annual reports.

- **Further Action Planned:**
  - No further action will be taken on this recommendation.

### Recommendation 12.2:

The Department of Joint Services, as a matter of urgency, develop a business plan for each year in accordance with accepted practice throughout the Victorian Public Sector.

- **PAEC Recommendation:**
  - The Department of Joint Services, as a matter of urgency, develop a business plan for each year in accordance with accepted practice throughout the Victorian Public Sector.

- **Response:**
  - Accept

- **Action Taken to Date:**
  - Developing a business plan is now occurring.

- **Further Action Planned:**
  - No further action will be taken on this recommendation.

### Recommendation 12.3:

The Presiding Officers of the Parliament undertake a follow-up review to ensure that the operational changes implemented to the Department of Joint Services, are operating satisfactorily.

- **PAEC Recommendation:**
  - The Presiding Officers of the Parliament undertake a follow-up review to ensure that the operational changes implemented to the Department of Joint Services, are operating satisfactorily.

- **Response:**
  - Accept

- **Action Taken to Date:**
  - This review has already started and it is well under way.

- **Further Action Planned:**
  - No further action will be taken on this recommendation.
### CHAPTER 13: GOVERNMENT’S RESPONSE TO THE PAEC REPORT NO. 51 – 2000-2001 BUDGET OUTCOMES

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<tr>
<td><strong>Recommendation 13.1:</strong> (page 327)</td>
<td>The Victorian Auditor-General’s Office report on the outcomes of follow-up audits in its annual report.</td>
<td>Not Applicable</td>
<td>The Auditor General has independently responded to this recommendation to the Public Accounts and Estimates Committee. The Government response does not identify these issues or actions. Refer to recommendation 13.1 response.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Recommendation 13.2:</strong> (page 329)</th>
<th>Not Applicable</th>
<th>Refer to recommendation 13.1 response.</th>
<th>Refer to recommendation 13.1 response.</th>
</tr>
</thead>
<tbody>
<tr>
<td>That the Victorian Auditor-General’s Office utilise survey information obtained from audited agencies to expand the quality performance measure regarding the conduct of performance audits as presented in Budget Paper No. 3 and the Auditor-General’s annual report. This should include separate performance measures that demonstrate the:</td>
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<tr>
<td>(a) value of audit reports to the agency;</td>
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<td>(b) quality of the audit report;</td>
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<td>(c) relevance of the selected audit topic; and</td>
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<td>(d) quality of the audit process.</td>
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</table>
### Recommendation 13.3: (page 331)

The Victorian Auditor-General’s Office develop additional performance measures and targets to accurately measure the value-adding component of performance audit reports to Parliament, and include this information in its annual report.

<table>
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### Recommendation 13.4: (page 334)

The Victorian Auditor-General’s Office develop additional performance measures and targets regarding the outputs of the Strategic Planning and Sector Liaison Group in order to measure its contribution to the overall objectives of the office. These performance measures should be reported in Budget Paper No. 3 and the Auditor-General’s annual report.

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