



Economic and Budget Review Committee

Twenty-second Report to the Parliament:

A Report on Activities
of the Committee, 1985-87

November 1987

ECONOMIC AND BUDGET REVIEW COMMITTEE

**TWENTY-SECOND REPORT TO THE PARLIAMENT
NOVEMBER 1987**

A REPORT ON ACTIVITIES OF THE COMMITTEE, 1985-87

Ordered to be Printed

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Mr D.K. Hayward, M.P.	Deputy Chairman
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Mr G.S. Jackson, Secretary
Mrs C. Ganegama
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ECONOMIC AND BUDGET REVIEW COMMITTEE



From left to right (Seated) Mr A.R. Stockdale, M.P.; Mr D.K. Hayward, M.P., Deputy Chairman; Hon. D.E. Henshaw, M.L.C., Chairman; Mr J.D. Harrowfield, M.P.; Mrs E.S. Gleeson, M.P.

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CHAIRMAN'S INTRODUCTION

This report outlines the activities of the Economic and Budget Review Committee over the past two years, a period of time coinciding with my term as Chairman. It is the first such report to be presented to Parliament by a joint investigatory committee appointed under the Parliamentary Committees (Joint Investigatory Committees) Act 1982.

There is no requirement for the Committee to produce a report on its activities. However, the Committee considers this to be an excellent way of broadening knowledge outside of the Parliament of the Committee's role and function and of its past work. In line with the emphasis the Committee places on enhancing the accountability of Government and public servants to the Parliament, the report provides a means by which the Committee can demonstrate its own accountability. The report also serves two other main purposes. First, it provides an opportunity to report upon matters dealt with by the Committee, but not previously reported upon to the Parliament. Second, the report provides an opportunity for the Committee to publicise more widely the Government responses to its reports and, as appropriate, to comment on these responses.

The report first provides background information on the Committee including its functions, method of operation and finances. A summary of its reports presented to the Parliament over the past two years is also provided. An attempt is made to indicate the general context within which these reports can be placed. The third chapter of the report outlines the status of matters dealt with by the Public Accounts Subcommittee, but not previously reported upon to the Parliament. Other activities of the Committee are reported on in chapter 4. Government responses to Committee reports are reproduced in the appendices to the report.

It is hoped that the Committee may continue and extend the practice of preparing general reports on its activities. A challenge before the Committee in this respect is to develop specific objectives, performance indicators and targets which can serve as a basis for better evaluating its effectiveness.

As Committee Chairman, I wish to acknowledge the efforts of other Committee members who have participated in the activities of the Committee over the past two years. A commendable degree of political bi-partisanship has been maintained over this period. I also wish to acknowledge the assistance given to the Committee by its research and administrative staff and by others who have provided assistance in an honorary capacity. Many other individuals and organisations have participated in its inquiries. The success of the Committee largely depends on the support it receives in this way and on the support of the Government through the provision of appropriate references and adequate resources to fund its activities.

The report on activities has been prepared by the Committee's Director of Research, Dr David Cousins, and research officers, Mrs My Chappell and Dr Marc Robinson. The Committee's Secretary, Mr Gavin Jackson, and word processor operators, Mrs Carmen Ganegama and Ms Lina Godino, also assisted in the preparation of the report.

THE HON. DAVID HENSHAW, M.L.C.

Chairman

CHAPTER 1

COMMITTEE BACKGROUND AND FUNCTION

1.1 Origins and Functions

The Economic and Budget Review Committee was formed in 1982 when a new committee system was established by the Victorian Parliament. Five standing committees were appointed under the Parliamentary Committees Act 1968 as amended by the Parliamentary Committees (Joint Investigatory Committees) Act 1982.

The Economic and Budget Review Committee replaced the Public Accounts and Expenditure Review Committee and included functions previously within the ambit of the State Development Committee. A Legal and Constitutional Committee subsumed the functions of the former Statute Law Revision and Subordinate Legislation Committees and a Natural Resources and Environment Committee picked up functions of the former Conservation of Energy Resources, Public Works and State Development Committees. A Social Development Committee, which incorporated the former Road Safety Committee, was also established and the Public Bodies Review Committee was reconstituted under the same name but with reduced powers.

In his Second Reading Speech Mr Roper, then the Minister of Health, noted that :-

The increased complexity of government and the need to facilitate improved public awareness of the operations and performance of government creates the need for a Parliamentary committee system with extensive and far-reaching powers of inquiry.

The well resourced Public Bodies Review Committee had already demonstrated a capacity to conduct successful and far-reaching inquiries and it was considered that other committees should have powers, methods of operation and capacity to engage research and support staff as existed for that Committee.

The Government indicated its continuing support for the concensus approach generally followed by previous committees and placed stress on openness and public accountability in their operation.

The Economic and Budget Review Committee was given significantly broader functions than its predecessors the Public Accounts and Expenditure Review Committee and before that the Public Accounts Committee of the Legislative Assembly. As specified in the Parliamentary Committees Act, the functions of the Committee were to :

inquire into, consider and report to the Parliament on any proposal, matter or thing connected with public sector or private sector finances or with the economic development of the State where the Committee is required or permitted so to do by or under this Act. [S.4A]

As with the other joint investigatory committees, the Economic and Budget Review Committee :-

- a. is required to inquire into, consider and report to the Parliament on any proposal, matter or thing relevant to the functions of the Committee which is referred to the Committee -
 - (i) by resolution of the Council and the Assembly; or
 - (ii) by Order of the Governor in Council published in the Government Gazette; and
- b. may inquire into, consider and report to the Parliament on any annual report or other document relevant to the functions of the Committee which is laid before either House of the Parliament pursuant to a requirement imposed by or under an Act. [S.4F(1)]

The Committee was, however, also given power to inquire at any time into budget related matters. It :-

may, in addition to the powers and duties conferred or imposed on it by sub-section (1), inquire into, consider and report to the Parliament on any matter arising out of the Annual Estimates of Receipts and Payments of the Consolidated Fund or other Budget Papers. [S.4F(2)]

The Committee's work program is determined by the references it receives from Parliament and Government and by its own priorities in respect of self-initiated work. Under the Act, the investigatory committees are required to give first priority to references coming from the Legislative Council and Legislative Assembly and second priority to references from the Governor in Council. They are also required to comply with any time limits specified with references.

Currently the Committee has one reference before it relating to commercial trading authority borrowing limits. Over the past two years the Committee has unsuccessfully sought references from the Government on two matters. The first concerned aspects of the review of financial legislation being undertaken as part of the Financial Management and Accountability Legislation Project. In view of the apparant lack of progress on this project and the importance of the work, the Committee is disappointed that it was not provided with such a reference. The second matter raised by the Committee concerned aspects of the administration of Parliament. Government and Opposition members on the Committee were concerned about the efficiency and effectiveness of the administration of Parliament in Victoria and, in view of reforms and different procedures introduced to other Parliaments, considered such an inquiry to be warranted. The Committee notes, however, that the Auditor-General has recently undertaken a more limited inquiry into aspects of the administration of Parliament. The Committee has had some input to this inquiry and awaits its outcome with interest. It will consider the matter further upon receipt of this report.

There is some prospect that the Committee may in the future obtain a reference relating to the possible scope for Health Maintenance Organisations and Preferred Provider Organisations in the State. The Committee recommended that it be given such a reference in its Review of Bush Nursing Services in Victoria (Report Number 19). In addition, there is some possibility that it may obtain a reference on fiscal equalisation as it operates in respect of Commonwealth payments to the States. Again the Committee itself recommended that it be given this reference (Report Number 15). The Treasurer has indicated, however, that he considers it advisable to await the Commonwealth Grants Commission's report due in March 1988 before pursuing any further the possibility of an inquiry into fiscal equalisation at the State level.

Over the past year the Economic and Budget Review Committee has been able to initiate work in a number of areas, partly because it has had few formal references before it. Most of this self-initiated work has been in the 'public accounts' area where particular matters arising out of reports of the Auditor-General tabled in Parliament have been examined in detail. On some of these matters the Committee has reported formally to the Parliament.

The Committee has not during the course of its existence undertaken a detailed examination of the Annual Estimates of Receipts and Payments of the Consolidated

Fund although during 1987 it did initiate an inquiry into the operation of program budgeting in the budget sector. There are strong arguments for integrating within the one committee the public accounts scrutiny function, which tends to look at the past, with the estimates scrutiny function, which tends to look to the future. These distinctions are in practice difficult to maintain particularly when program efficiency and effectiveness is considered.

The estimates function has, however, been the subject of controversy in the Victorian Parliament and, following a review by the Economic and Budget Review Committee, a new joint select committee was established in September 1987. The Economic and Budget Review Committee is unlikely to pursue the estimates function whilst this select committee continues to operate. It has been appointed until the end of May 1988.

1.2 Aspects of Committee operation

1.2.1 Membership and Secretariat

The Economic and Budget Review Committee comprises 12 members of Parliament with 6 Government members and 6 Opposition members - 4 Liberal Party members and 2 National Party members. The Chairman, elected by the Committee, is a Government member. He has a deliberative vote and, in the event of an equality of votes, a casting vote. The composition of the Committee is in line with the sizes of the two Houses, with 8 members being from the Legislative Assembly and 4 from the Legislative Council. A quorum of 7 members, is required for a formal meeting of the Committee, but a quorum cannot consist exclusively of Assembly members.

The Committee has a secretariat consisting of 3 researchers, under the Director of Research who reports to the Chairman and the Committee, and an administrative group, comprising the Secretary, who reports to the Chairman, the Committee and the parliamentary officers of the Legislative Assembly, and 2 word processor operators. The research staff are temporary appointments, but the administrative staff are permanent appointments under the Parliamentary Officers Act 1975. In addition to its 'core' research staff and permanent administrative staff, the Committee may seek approval for additional staff for particular inquiries and for consultancy services to be made available to it. The Committee has also been assisted in an honorary capacity by Professor Graham Peirson of Monash University and Dr Ian Brand of the Preston and Northcote Community Hospital on a number of its inquiries.

1.2.2 Finances

Any expenditure of the Committee must be authorised by and certified to by the Treasurer and the Speaker, the relevant Presiding Officer. A budget for the Committee is approved annually but, in addition, the Committee is required to seek approval for all items of expenditure within this budget. Under guidelines issued by the Premier in April 1985 all references given to committees must be separately costed. After agreement is reached with the relevant committee, a proposed budget for a reference is considered by the Department of Management and Budget and then forwarded to Cabinet for its consideration.

Details of the Committee's budgeted and actual expenditure for the past three years are shown below. These figures do not include the cost of Committee accommodation in Nauru House or certain 'free' goods and services provided by the parliamentary administration, for example, research services provided by the Parliament's Library. Included in the 1985-86 figures is a budgeted amount of \$45,000 agreed under the Premier's guidelines for the Bush Nursing reference (Committee Report Number 19) of which only approximately \$30,500 was expended. The budget of \$25,000 for the Inquiry into Commercial Trading Authority Borrowing Limits has been included in the 1986-87 budget figures.

It may be observed that actual expenditure of the Committee has declined significantly in nominal terms and even more so in real terms between 1984-85 and 1986-87. Part of the reason for this is that the Committee has not engaged the services of consultants to assist with its work. The 1985-86 actual figures were significantly lower than the previous year because of the interruption to Committee activities arising from the general election in April 1985, the subsequent appointment of a new Committee in October 1985 and the employment of new research staff following this. The new Director of Research did not commence duties until April 1986.

1.2.2.1 Lack of Committee Autonomy

A problem common to a number of parliamentary committees is their dependence on authorisations of individual items of expenditure by the Executive Government, in the shape of the Treasurer, and one of the Presiding Officers - in this Committee's case the Speaker.

In principle, the Committee considers that, as a body of responsible elected members, it ought to be able to determine its own expenditure priorities, at least within its approved annual budget. It should have the specific power to allocate funds within approved global budgets in a way which maximises its effectiveness. Parliamentary committees should not any more than the Parliament itself be dependent on the Executive Government and the party in power if they are adequately to perform their constitutional role of holding the Executive Government accountable. Also, it is impracticable for anyone outside the Committee and its staff to acquire in good time the depth of knowledge of the Committee's work required to make informed decisions. One practical problem is that decisions are sometimes delayed to an extent which is detrimental to the Committee's functions. The Committee has also experienced problems with respect to matters such as research staff travel and continuity of word processor operator services.

TABLE 1
ECONOMIC AND BUDGET REVIEW COMMITTEE
BUDGETED AND ACTUAL EXPENDITURE 1984-85 to 1987-88

	1984/85		1985/86		1986/87		1987/88
	Budget	Actual	Budget	Actual	Budget	Actual	Budget
	\$	\$	\$	\$	\$	\$	\$
Member's travel/ expense allow.	21000	11744	14000	5435	18052	8080	14238
Staff Salaries	183000	174316	203300	144951	245000	210371	219697
Consultants	57000	58418	-	-	-	-	-
General expenses	40000	42170	57700	29499	66948	39686	72065
	301000	286648	275000	179885	330000	258137	306000

1.2.3 Subcommittees

The Committee has power to appoint Subcommittees of not less than four members to conduct particular inquiries. Subcommittees are required to report to the Full Committee which can accept, reject or vary any report presented to it. Subcommittees otherwise have all the powers of the Full Committee except the power to commission research or second staff from the Public Service.

At the present time the Committee has four appointed Subcommittees. These are the Public Accounts, Public Sector Efficiency, Borrowing Limits and Staffing Subcommittees. The **Public Accounts Subcommittee** was first appointed in October 1985 with the following interim terms of reference :

To inquire into, make recommendations, and report to Parliament on means of increasing the efficiency and accountability of the public sector, with particular reference to :-

- (i) the appropriate process and mechanism for Parliamentary scrutiny of the Victorian Government's Budget;
- (ii) the Auditor-General's current methods of reporting and the process of consideration of such reports by Parliament;
- (iii) matters raised in the Auditor-General's 1983-84 reports with regard to
 - (a) the adequacy of current control and reporting practices and the need for comprehensive statements on the level and composition of public borrowing and public debt in Victoria;
 - (b) the qualification of and the Notes to the financial statements of the State Insurance Office;

and any matters related to the foregoing.

This Subcommittee has been very active over the course of the past two years and its work is described in further detail in chapter 3.

The **Public Sector Efficiency Subcommittee** (previously the Public Sector Waste Subcommittee) has not as yet undertaken any formal inquiries. This reflects, in part, initial uncertainty as to the scope of the Committee's powers and whether the terms of reference set for the Subcommittee were within these powers. On the basis of this uncertainty the Speaker rejected a proposal to fund an inquiry proposed for this Subcommittee and a legal opinion from the Solicitor-General subsequently confirmed that the proposed terms of reference were not within the Committee's statutory ambit, though members could undertake any inquiry they wished without funding from the Parliament or use of the Committee's powers. Revised terms of reference were, however, later confirmed by the Solicitor-General to comply with the Committee's legislative functions.

The revised terms of reference proposed that the Subcommittee :

evaluate existing mechanisms designed to ensure the efficiency and effectiveness of expenditures authorised under the Appropriation (1985-6 No. 1) Act 1985 including mechanisms for dealing with allegations of wastage of resources.

The Solicitor-General reported that :

By S 4F(2) the Committee is authorised 'to enquire into consider and report to Parliament on any matter arising out of ... the Budget papers'. In my opinion the question of whether the money authorised to be spent by the Annual Appropriation Act is likely to be well spent is a matter arising out of the Budget papers within the meaning of S 4F(2).

It follows that the Treasurer and the Speaker may certify the Committee's expenditure in relation to the proposed reference for the purposes of S 4T [of the Parliamentary Committees Act 1968] and that the Committee for the purposes of the reference is entitled to exercise the powers given to it by the Parliamentary Committees Act.

The terms of reference confirmed by the Solicitor-General were, with minor variations, adopted by the Full Committee in September 1986. The Subcommittee has since met on a number of occasions and held informal hearings with representatives of public and private sector organisations to develop a specific focus for its inquiry. The Full Committee subsequently agreed to specific objectives for a Subcommittee inquiry :

to consider whether the performance of public sector organisations could be enhanced through the adoption of improved mechanisms for obtaining and dealing with inputs from the public (including inputs from within and outside these organisations).

A proposal for funding such an inquiry is now being developed by the Committee.

The **Borrowing Limits Subcommittee** was appointed by the Committee in August 1987 following receipt of an Order from the Governor in Council requiring the Committee to inquire into, consider and report to the Parliament by 31 December 1987 on :

the matter of whether the imposition of limits on the borrowings of commercial trading authorities covered by the Borrowing and Investment Powers Act, viz. the State Electricity Commission, the Gas and Fuel Corporation and the Melbourne and Metropolitan Board of Works is appropriate and desirable, and if deemed so, what would be the appropriate mechanism for the establishment and review of these limits, in particular whether this by :-

- (i) amendment to the relevant Act or;
- (ii) adjustment by regulation [subject to disallowance if both Houses agree].

This inquiry has commenced and is expected to report when Parliament resumes for the Autumn Session 1988.

The **Staffing Subcommittee** meets on an irregular basis to review applicants for research positions with the Committee when vacancies exist and make recommendations to the Full Committee for appointment. The Subcommittee does not have a role in relation to appointment to administrative positions with the Committee, though the Committee Chairman is normally consulted over the appointment of the Secretary.

Membership of the Subcommittees currently in existence is shown on page iii. Details of the number of formal meetings of Subcommittees (both past and present) and the Full Committee over the past two years are shown below.

TABLE 2
NUMBER OF MEETINGS OF THE FULL COMMITTEE AND SUBCOMMITTEES

	1985-6	1986-7
Full Committee	11	16
Subcommittees		
Public Accounts	13	20
Federal Finances	8	2
Radiologists/Visiting Medical Officers	5	4
Bush Nursing Services	1	25
Public Sector Waste/Efficiency	3	7
Review of Budget Estimates	-	5
Staffing	<u>3</u>	<u>2</u>
TOTAL	<u>44</u>	<u>81</u>

The table indicates a significant increase in activity in 1986-87 compared to the previous year. This was especially due to the Bush Nursing Services reference and also the work of the Public Accounts Subcommittee which resulted in a number of reports being presented to Parliament late in 1986. The Borrowing Limits Subcommittee did not hold any meetings prior to the end of June 1987.

1.2.4 Inquiry Processes

The Committee has wide powers in relation to the conduct of its inquiries. It has, for example, the power to call for persons, papers and records and may at appropriate times conduct its business anywhere in Victoria or elsewhere. It may hold hearings, seek submissions, obtain research assistance, produce discussion papers and present reports to the Parliament.

The Committee normally proceeds by first advertising in relevant newspapers the terms of reference set for its inquiries and inviting written submissions from interested persons and organisations. (The process adopted for Public Accounts Subcommittee investigations is described in chapter 3). The openness of Committee inquiries in this way is a vital element of the inquiry process. The Committee also generally holds hearings and, unless otherwise resolved, these are advertised to the public. Persons may request to meet the Committee, but more frequently the Committee invites appropriate persons to meet with it to discuss particular matters. Material prepared by the research staff is often provided on an informal basis to witnesses on such occasions to assist their preparation for these hearings. A Hansard record of evidence is generally taken of all Committee hearings. In special circumstances, however, the Committee may take evidence in private. The Committee is required, unless it decides that special circumstances make it undesirable to do so, to make available to any member of the public a copy of any submission, research report or record of evidence given to it or determination made by it.

The Committee may prepare and publish discussion papers, which are not required to be tabled in the Parliament, as well as reports (including interim reports if appropriate) which are tabled in the Parliament. Any report to the Parliament may contain a minority report by one or more members of the Committee when they request this. The strong element of consensus reached by the Committee in most inquiries is illustrated by the fact that only in one of its last 8 reports has there been included a minority report.

1.2.5 Government Responses to Committee Reports

Under the Parliamentary Committees Act, where the Committee in a report to the Parliament recommends that a particular action be taken by the Government, the

appropriate responsible Minister is required within six months of the tabling of the report to report to the Parliament on the action (if any) the Government proposes to take with respect to the recommendation. There is no sanction specified for failure on the Government's part to respond in this way. Nor is there any indication of the form such a response should take or what level of detail it should be in. Nevertheless, this provision in the Act is a significant one. It provides strong persuasion for the Government to treat Committee reports seriously and to take early action to address the matters they raise.

The following table lists the reports produced by the Committee which have been laid before both Houses of the Parliament. (A summary of the more recent of these reports is given in the following chapter). The table indicates the date the report was tabled and the manner and date of the Government response. Prior to report No. 14 the Committee's reports were not consecutively numbered, however, the appropriate numbers have been recorded in the table for convenience. Whilst the Committee understands that some issues raised in its reports are sensitive and cannot be immediately dealt with, it is disappointed that its reports have not always been responded to in the prompt and detailed manner that it considers ought to apply.

In Appendix 1 and 2 the formal responses recently given by the Treasurer to report numbers 15 and 18 are reproduced in full. The Committee is pleased that both responses are generally supportive of its recommendations and that they are sufficiently detailed to indicate that these reports have been carefully scrutinised. The Committee notes, however, with respect to the State Insurance Office report, that the Government does not intend to provide additional information concerning the actuarial assumptions adopted in assessing the value of outstanding claims. This is disappointing since as the Treasurer has recently pointed out :

Small differences in actuarial assumptions associated with timing of payments, rates of growth in claim payments and future expense rates can lead to significantly different actuarial results.
[Treasurer's Statement for year ended 30 June 1987, p.xxvi].

The significance of this point is demonstrated by the different valuations actuaries have placed on the value of outstanding claims liabilities for compulsory third party insurance. A valuation for the State Insurance Office at 31 December 1986 was

\$2,464.367 million whereas a valuation at 1 January 1987 for the Transport Accident Commission which assumed the liability at that time was \$2,077.2 million, a difference of \$387.437 million or 18.7 per cent on the lower figure. This difference was stated by the Auditor-General to "arise because of different methods and assumptions adopted and different perspectives applied to the future stream of liabilities".

The Committee will, as a matter of course, review all Government responses to its reports and, if appropriate, seek to ensure that an adequate response is forthcoming. On a number of occasions it has found it necessary to reiterate recommendations made in earlier reports. In report Numbers 16 and 21, for example, the Committee called for amendments to the Audit Act 1958 and Annual Reporting Act 1983 in line with recommendations made as far back as 1983 in its first report. It will continue to press for implementation of appropriate recommendations.

TABLE 3
LIST OF COMMITTEE REPORTS AND DATE OF GOVERNMENT RESPONSES

REPORT NUMBER	SHORT TITLE	DATE	GOVERNMENT RESPONSE
1.	Improving Government Management and Accountability : A Review of the Audit Act 1958	April 1983	Ministerial Report 29 May '86
2.	Dry Docking and Repair Facilities in the Port of Melbourne	June 1983	No Response
3.	Proposals Contained in the Local Authorities Superannuation (Amendment) Bill (No.2)	October 1983	Passage of Bill in amended form
4.	Proposals Contained in the State Employees Retirement Benefits (Amendment) Bill	October 1983	Passage of Bill in amended form
5.	Proposals Contained in the Hospitals Superannuation (Amendment) Bill (No.2)	November 1983	Passage of Bill in amended form
6.	Matters Raised in the Education Department by the Auditor-General of Victoria	March 1984	Ministerial Report October 1984
7.	Royal Southern Memorial Hospital	March 1984	Ministerial response to Question in Parliament 29 March 1984
8.	A Review of Superannuation in the Victorian Public Sector	April 1984	Ministerial Report May 1985
9.	Summary of Victorian Public Sector Superannuation Schemes	April 1984	Ministerial Report May 1985
10.	Final Recommendations and Options for the Future Reform of Victorian Public Sector Superannuation	September 1984	Ministerial Report May 1985
11.	Review and Recommendations of the Victorian Parliamentary Superannuation Scheme; The Judges Superannuation Schemes; The Governor's Pension and other Special Superannuation Schemes	October 1984	Ministerial Report May 1985
12.	Wine Industry in Victoria	April 1985	Ministerial Report 8 May 1986

REPORT NUMBER	SHORT TITLE	DATE	GOVERNMENT RESPONSE
13.	Method of Remuneration for Visiting Medical Staff at Public Hospitals	October 1985	* No Response
14.	A Labour Market Study for Radiologists	7 October 1986	* No Response
15.	Aspects of State-Federal Financial Relations	21 October 1986	Ministerial Report 6 October 1987
16.	Accountability Requirements Affecting Subsidiary Companies of Government Organisations with Special Reference to V/Line Industries.	11 November 1986	No Response
17.	Matters Concerning the National Gallery of Victoria	2 December 1986	No Response
18.	State Insurance Office : The Accounting Measurement of Compulsory Third Party Outstanding Claims Liabilities	3 December 1986	Ministerial Report 17 August 1987
19.	Review of Bush Nursing Services in Victoria	30 April 1987	* No Response
20.	The Accounting Treatment of Fixed Interest Security Switches with Special Reference to the Construction Industry Long Service Leave Board.	October 1987	Response not yet due
21.	The Relationship Between the Economic and Budget Review Committee and the Office of the Auditor-General	October 1987	Response not yet due

* The Minister for Health, the Hon. David White, M.L.C., advised the Committee on 13 April 1987 that the joint Health Department/Australian Medical Association Consultative Committee which was examining the Labour Market Study for Radiologists had requested an extension to the six month response period to enable it to consider fully the complex issues raised in the report. He anticipated, however, that a response would be available for the Spring Session of Parliament. It is also expected that the Minister will respond to Reports number 13 and 19 before the end of this session 1987.

CHAPTER TWO

SUMMARY OF RECENT REPORTS

This Chapter provides brief summaries of the reports presented to Parliament by the Committee over the past two years. The summaries indicate the source of the inquiry leading up to the report, the scope of the report, the broad recommendations made and the general context within which the report can be placed.

In pursuing its investigatory role (as opposed to the scrutiny role particularly manifest in the work of the Public Accounts Subcommittee) the Committee's broad objectives are to complete its formal references within the specified time frame; to provide well balanced analysis of the issues involved supported by accurate research; to allow full scope for the involvement of interested persons and organisations in its inquiries; to present soundly based and practical recommendations for action; and to achieve so far as is possible political bi-partisanship on all issues.

Report No. 13 Inquiry into the Method of Remuneration for Visiting Medical Staff at Public Hospitals, October 1985, 90 pages

This Inquiry was an extension of work begun during the Inquiry into the Royal Southern Memorial Hospital (Report Number 7) and originated out of a dispute at the Frankston Community Hospital where medical staff and the Victorian Branch of the Australian Medical Association were resisting efforts by the Health Commission of Victoria to introduce sessional medical services and sessional remuneration for Visiting (part-time) Medical Officers in place of the existing fee-for-service arrangements for treating public patients.

Issues concerning the method of remuneration for Visiting Medical Officers had been subject to on-going controversy in the health sector for some years and formed a major part of the 'NSW doctors dispute' in 1985. Many health economists and bureaucrats considered that fee-for-service payments encouraged over-servicing and reduced the control administrators had over hospital budgets. These problems were considered less likely with sessional payments where medical staff were paid essentially on a time basis rather than a case basis. Medical practitioners tended to argue, however, that fee-for-service arrangements allowed greater continuity of patient care by the same doctor.

The Committee's report outlined and compared the different methods of remuneration and discussed the problems involved in determining hospital sessional allocations and intra-hospital allocations before finally presenting a detailed financial analysis of the costs involved in sessional and fee-for-service alternatives at Frankston Community Hospital. The methodology used here could be applied to other public hospitals.

The major conclusions of the Inquiry were that the method of remuneration did not have any discernable effect on the quality of health care provided; that the choice of method should therefore depend on the relative costs involved; and that, since circumstances varied between hospitals, the appropriate form of remuneration might also vary. Fee-for-service payments might, for example, be more appropriate for smaller hospitals. The Committee's assessment was that at Frankston Community Hospital the use of composite sessions (where both public and private patients could be treated) for in-hours treatment, and fee-for-service for out of hours treatment, was the most economical approach.

Report No. 14, A Labour Market Study for Radiologists, October 1986, 105 pages

This report also arose out of the Committee's Inquiry into the Royal Southern Memorial Hospital (Report Number 7), where it was observed that some contract radiologists were receiving extremely high levels of remuneration, and from concern among health administrators that public hospitals were having difficulty attracting radiologists to full time employment given their higher income earning potential in the private sector. An underlying influence recognised by the Committee was the existence of Medicare and private insurance arrangements which had the effect of boosting demand for diagnostic services and contributed to the problem of 'over-servicing'. Technological innovation, for example the use of CT Scanners, was also having the effect of boosting demand and, since such services were often complex and time consuming to supply, were placing greater pressures on radiologists.

The Committee's report discussed the role of radiologists and their training and accreditation requirements. The possible influence of the Royal Australasian College of Radiologists in artificially restricting the supply of qualified radiologists was examined and consideration was given to the employment conditions of radiologists in the private and public sectors.

Evaluation of the available evidence, including that provided by a survey of public hospitals in Victoria conducted by the Committee in conjunction with the Department of Labour, confirmed the existence of a mild shortage of radiologists. The Committee considered, however, that there was a need for better data and more systematic manpower planning at State and Commonwealth levels. Some public scrutiny of trainee examination failure rates and the length of training was also considered warranted.

It was suggested that greater inter-state and overseas recruitment may be an effective approach to increasing the supply of radiologists in the short term. In the longer term an increase in training positions, possibly by reallocating positions away from other specialties, and modifications to contract arrangements with trainees, so that hospitals gained longer service, may be warranted. Importantly, the Committee raised the possibility of non-specialists such as radiographers performing a wider range of radiological services. In contrast to the Penington Report (September 1984), however, the Committee took a more cautious approach toward allowing practitioners in public hospitals greater access to private practice income as a way of encouraging full time employment. But it did suggest other measures relating to work loads, budgeting and radiological equipment which may assist in this regard.

Significantly also, the Committee recommended that a review of the Medicare Benefits Schedule relating to radiological procedures be undertaken by the Commonwealth with the objective of reducing schedule fees so that they were more in line with the cost of supplying services, including allowance for reasonable levels of remuneration. The likely effect of such a move would be to reduce private practice incomes thereby increasing the relative attractiveness of public hospital employment.

Report No. 15 Inquiry into Aspects of State-Federal Financial Relations, October 1986, 122 pages

This report originated in two terms of reference given to the Committee by the Government in late 1985. The Committee was asked to review the distribution of tax powers between the Commonwealth and the States, and the principles according to which the Commonwealth makes grants to the States. These references were a reflection of the Victorian Government's concern at the extreme dependence of the Australian States upon Commonwealth grants - a dependence which largely reflects the overwhelming centralisation of taxing authority in the hands of the

Commonwealth. The issue has been a perennial one, and the references to the Committee came at a time when the Victorian Government had put the question of reform in inter-governmental financial relations on the agenda at the Premiers' Conference.

In its report, the Committee pointed to a number of adverse consequences of the existing highly centralised system of intergovernmental financial relations. It pointed to the excessive use made by the Commonwealth of tied grants, which in some instances amounted to unwarranted intrusion into State expenditure decision-making, and the distortion of the Australian tax system, which has resulted from the pressure that has been placed on States to maintain their own (narrowly-based and relatively distorting) taxes at high levels. It also indicated that the Commonwealth is in a position to make the States bear a greater share of the burden of fiscal restraint than the Commonwealth itself has been prepared to bear.

The Committee concluded that States should be able to levy both personal income taxes and broad-based sales taxes. It analysed and rejected the often-heard argument that any decentralisation of tax powers would threaten the Commonwealth's power to manage the national economy. The Committee also suggested that the Commonwealth Constitution should be altered to permit State and Commonwealth Governments to enter binding agreements about the way in which centrally-raised revenues would be shared between them. This suggestion drew on the highly successful West German model.

The Committee's Report examined closely the problems inherent in the existing system of tied grants (specific purpose payments) and recommended a number of steps which could be taken to reduce the unwarranted use of tied grants by the Commonwealth and to improve accountability at the State level in the use of tied grant monies.

A further feature of the report was a brief consideration of the equity and efficiency issues which arise in relation to the existing fiscal equalisation system as administered by the Commonwealth Grants Commission. The Committee concluded that fiscal equalisation does not take economic efficiency considerations adequately into account, and that reforms were highly desirable.

**Report No. 16 Accountability Requirements Affecting Subsidiary Companies of
Government Organisations with Specific Reference to V/Line
Industries Pty. Ltd., November 1986, 18 pages**

This report followed an inquiry which the Committee itself initiated following reports to the Parliament by the Auditor-General. The Auditor-General had drawn attention to the fact that V/Line Industries Pty. Ltd., a wholly owned subsidiary of the State Transport Authority, was not required to have its accounts audited by the Auditor-General.

In recent years there has been a significant increase in the number of companies, trusts and joint ventures established or entered into by government organisations. In part this trend, which is evident in all States and the Commonwealth, not just Victoria, reflects more direct efforts by governments to stimulate economic activity and boost net exports, especially in high technology areas. It also sometimes reflects tighter funding restrictions necessitating organisations such as universities to seek additional income from the sale of consulting and other services. A major concern, however, regarding these entities has been the inadequate provision made for their accountability to the Parliament.

Whilst the report dealt specifically with V/Line Industries Pty Ltd, it also considered more generally the accountability issues affecting subsidiary companies of government organisations. It highlighted the fact that the powers and scope of activities of subsidiary companies could substantially exceed those of their parent public bodies so effectively extending the powers originally circumscribed by Parliament.

The report recommended that the objects, functions and powers of subsidiary companies of government organisations should be clearly specified and remain consistent with their parent bodies. It also recommended that all subsidiary companies should have their accounts audited by the Auditor-General and be required to report to the Parliament. Similar auditing and reporting requirements were considered justified where government had a lesser interest, but where substantial public funds were still involved.

Report No. 17 An Inquiry into Certain Matters Concerning The National Gallery of Victoria, December 1986, 22 pages

This inquiry was again initiated by the Committee following comments made by the Auditor-General in reports to the Parliament over several years. The Auditor-General had expressed concerns regarding stocktaking and cataloguing, valuation, insurance, and security for the State Collection of art works held by the National Gallery of Victoria. Each of the issues identified was examined and recommendations were made to redress the deficiencies found to exist.

The major recommendations were that a regular stocktaking be conducted, a comprehensive and up to date catalogue be established, an assessment of the adequacy of security arrangements be carried out and the State Collection of art works be valued.

In considering the issues raised by the Auditor-General, the Committee also found that they were to some degree affected by existing administrative arrangements whereby the Council of Trustees had statutory responsibility for managing the Gallery, but its staff were under the control of the Ministry for the Arts. The Committee recommended that greater autonomy be given to the Council of Trustees in the management of the Gallery, including control over staff resources and responsibility for preparing an annual report, which should be subject to the requirements of the Annual Reporting Act 1983.

Report No. 18 State Insurance Office : The Accounting Measurement of Compulsory Third Party Outstanding Claims Liabilities, December 1986, 30 pages

This report originated from the Committee's consideration of qualifications issued by the Auditor-General on the Accounts of the State Insurance Office (SIO). The qualifications related to the accounting measurement of outstanding claims liabilities of Compulsory Third Party Motor Vehicle Insurance operated by the SIO. (In January 1987 the Transport Accident Commission assumed responsibility for CTP Motor Vehicle Insurance in Victoria).

There are different techniques which can be used to measure outstanding claims liabilities and each can have a significant impact on the figures shown in the financial statements. There is no general agreement among the experts as to which

measurement technique is appropriate and no accounting standard exists to provide guidance on the subject. The SIO made significant changes in the technique used to measure its outstanding claims liabilities on two occasions over a period of six years. These changes had the effect of reducing the liability measures and the inconsistency of treatment led to the qualifications by the Auditor-General.

The report considered the impact of the different measurement techniques used and of the changes made by the SIO on its reported financial results. It also considered the merits of each of the available techniques and discussed the information requirements of Parliament in relation to the reporting of insurance operations. Whilst the Committee expressed some preference for the present value method of measuring the outstanding claims liabilities, it did not specifically endorse any one particular technique. However, more consistency in reporting and greater disclosure concerning, for example, actuarial assumptions and cash flow projections were seen to be important.

In presenting a balanced account of the issues the Committee hoped that its report would provide a catalyst for the accounting profession, in conjunction with the insurance industry, to develop an appropriate standard covering the measurement and reporting of outstanding claims liabilities and the assets available to meet these liabilities.

Report No. 19, Review of Bush Nursing Services in Victoria, April 1987, 225 pages

This review was conducted by the Committee at the request of the Government and with the support of the Victorian Bush Nursing Association. The Review was in response to concerns about the future viability of some Bush Nursing agencies and uncertainty about the role of Bush Nursing within the health care system.

The Bush Nursing movement comprises 36 private nonprofit, non-sectarian hospitals (14 with attached nursing home annexes and 2 with hostels), 1 nursing home, 17 nursing centres and a central umbrella organisation, the Victorian Bush Nursing Association. The movement was established in 1910 to meet the health care needs of people living in country areas of Victoria. Public funding for the hospitals was withdrawn in the early 80s; the nursing homes and hostels are Commonwealth deficit funded; whilst the centres, which are run by trained nurses, are primarily State and Commonwealth Government funded.

The Committee's review raised many fundamental issues in health care including the balance between public and private sector provision of health care services, the impact of Medicare and private insurance on the demand for and supply of health care services, appropriate ways to control health care expenditure and costs, and policy toward extended care services for the aged.

The Committee concluded that Bush Nursing had a valid role in the health system but that, especially in view of the long term decline in demand for acute services from small hospitals, there was a need to reassess the role of each agency within the context of the State's regional health planning framework. The report noted that where there was inadequate access to public hospital facilities it may be appropriate to convert Bush Nursing hospitals to public hospitals or for beds to be leased from them for public patients. Public funding for out-patient/casualty services and district nursing services at Bush Nursing hospitals was also supported in certain circumstances.

The report highlighted a shortage of nursing home, hostel, and home and community care services in parts of Victoria which contributed to the high proportion of nursing home type patients in Bush Nursing hospitals. The Committee, whilst generally supporting the shift in policy toward less emphasis on institutional care, warned of the danger of not maintaining an adequate overall level of public funding. Evidence presented in the report suggested that Victoria was not as well provided for in these areas as were other States.

The report reviewed the financial performance of Bush Nursing hospitals over the previous four years. It concluded that 1984-5 had been a difficult year for many hospitals but that improvements had since occurred. Many of the hospitals had substantial reserves not fully utilised and considerable scope to improve operating efficiency.

Problems encountered in the running of the centres, particularly the stability of funding arrangements and the supply of prescription drugs by nurses, were analysed in the report and significant recommendations made to address these problems. Finally the report recommended changes in the structure and role of the Victorian Bush Nursing Association so that it could more effectively serve the interests of its affiliated agencies.

Report No. 20 The Accounting Treatment of Fixed Interest Security Switches with Special Reference to the Construction Industry Long Service Leave Board, October 1987, 26 pages

This report was another to arise out of the work of the Public Accounts Subcommittee and its review of the reports to Parliament by the Auditor-General. The financial statements of the Construction Industry Long Service Leave Board had been qualified by the Auditor-General from 1981-82 for the non-disclosure of gains and losses resulting from the switching of fixed interest securities. The qualification revolved around different interpretations of how gains and losses should be accounted for. The Board adopted a "book value" approach, whilst the Auditor-General considered the "market value" approach to be the appropriate method. There was, however, no specific accounting standard to determine the matter and the dispute over the appropriate treatment continued until April 1986 when the Board decided to change its accounting policy to conform with the view put by the Auditor-General and to avoid further qualification.

The report examined in detail the nature of the audit qualification. It considered the rationale for security switches and discussed their accounting treatment and, more generally, the valuation and reporting of investments.

The report highlighted the need for more uniform and consistent reporting practices and speedier resolution of matters raised by audit qualifications. To these ends it recommended that the Construction Industry Long Service Leave Board be required to report under the ambit of the Annual Reporting Act and that the Department of Management and Budget play a more active role in providing authoritative accounting guidance to public sector organisations.

Report No. 21, The Relationship between the Economic and Budget Review Committee and the Office of the Auditor-General, October 1987, 31 pages

Successive Victorian Auditors-General have called for a formal mechanism to be established to ensure that their reports are examined by Parliament. They have also suggested that the Economic and Budget Review Committee is the appropriate committee of Parliament to undertake such work. In response to these suggestions the Public Accounts Subcommittee initiated this examination of the issues raised by these

suggestions. The report provides relevant background to the operation of the Committee and of Public Accounts Committees in general. It outlines the functions of Auditors-General in Australia and their relationships with parliamentary Public Accounts Committees. It then goes on to examine the situation in Victoria and considers whether there ought to be a more formal link with the Economic and Budget Review Committee. Other aspects of the Committee's public accounts functions are also considered, specifically there is comment on arrangements concerning government responses to Committee reports.

The report argues that the public accounts function is an important one which should be resourced as an on-going activity of the Committee. It should not, however, be the only activity of the Committee which also has a concern for broader economic and budget related matters.

Inevitably the public accounts function entails close liaison between the Committee and the Office of the Auditor-General. But the report stresses that the Committee is and must continue to be independent of the Office of the Auditor-General. The report recommends that there be legislative recognition of the fact that the Committee has a role in examining reports of the Auditor-General and reporting on these to Parliament as it sees fit. The report also urges the Government to act on previous Committee recommendations relating to the revamping of State audit legislation and the role of the Auditor-General.

CHAPTER THREE

MATTERS DEALT WITH BY THE PUBLIC ACCOUNTS SUBCOMMITTEE BUT NOT PREVIOUSLY REPORTED UPON TO PARLIAMENT

3.1 The role of Public Accounts Committees

Public Accounts Committees have an important role in Westminster Parliamentary tradition. The first such committee was appointed in the UK House of Commons in 1861. The Victorian Parliament was the first Parliament in Australia to appoint a Public Accounts Committee in 1895. Although this Committee was in abeyance between 1931 and 1955, it operated up to 1979. At this time the functions were widened to incorporate expenditure review and it was reformed as the joint Public Accounts and Expenditure Review Committee.

Public Accounts Committees traditionally examine matters to do with the Public Account and matters upon which Auditors-General report upon to the Parliament. Since it is not the role of Auditors-General to comment on the wisdom or otherwise of government policy, these matters are primarily of an administrative nature. They especially concern compliance with legislative and regulatory requirements and the efficiency of public administration. With the growing emphasis on value for money auditing, however, there is also now some concern with the efficacy of mechanisms to ensure the effectiveness of government programs.

Public Accounts Committees are not confined simply to dealing with the matters of administration. As with other parliamentary committees their work may entail consideration of policy. It is, of course, in many instances difficult to separate clearly matters relating to administration from those relating to policy.

The broad objectives of the Economic and Budget Review Committee's Public Accounts Subcommittee are to ensure that administrative processes in the public sector operate in full compliance with legislation, regulation and government directives; to promote efficiency and effectiveness of public sector resource use; and to ensure full accountability of Government and the Public Service to the Parliament, the representative body of the people. In promoting the objective of accountability the Subcommittee has a particular concern to ensure the adequacy of public body reporting standards and practices. This has involved the Subcommittee looking at such

matters as the applicability and appropriateness of current accounting standards, the need for accounting guidelines in the absence of standards, the desirability of moving toward full accrual accounting in the budget sector, the desirability of extending the coverage of the Annual Reporting Act and of speedier and more comprehensive reporting to Parliament. It has also led to support for broadening the role of the Auditor-General as an independent 'watchdog' reporting to the Parliament.

In pursuing its public accounts function the Committee has been conscious of the need to develop an effective working relationship with the Auditor-General and his office. The Committee relies on the Auditor-General for guidance as regards the matters he comments on in his reports and for additional information when considered necessary. The Committee, however, forms its own judgements on these matters and it is necessary that both organisations maintain an independent arm's length relationship. To this end the Committee and the Auditor-General have agreed on a set of guidelines to govern their working relationship. These guidelines have been published in the Committee's most recent report (Number 21) which discusses more fully its relationship with the Auditor-General.

The Committee has called for a more formal recognition of the public accounts role by having it clearly specified that the functions of the Committee include consideration of the Auditor-General's reports to Parliament. By doing so the Committee has indicated that it considers this function to be an important on-going one which should not be interrupted by the necessity to give priority to references sent to the Committee. Nevertheless, the public accounts function is just one part of the Committee's role and it is necessary to maintain a proper balance between this function and work on more general economic and budget related matters.

3.2 Process of Public Accounts Subcommittee Investigations

The Public Accounts Subcommittee generally adopts the following approach to its work. It begins by scrutinising reports of the Auditor-General to identify matters for possible further evaluation. Next it discusses with the Auditor-General and representatives from his office the content of his reports and ascertains those matters which should be accorded high priority. Often by the time the Auditor-General's reports are tabled departments and public bodies will have begun to take action to deal with the matters raised in audit reports, and the Subcommittee will obtain advice on this. Following this step, the Chairman of the Subcommittee will write to relevant

Ministers about important outstanding matters to ascertain their exact status and what the Minister and, where appropriate the Chief Executive Officer, intends to do about them. The Subcommittee reviews these replies and may at this stage seek further advice from the Office of the Auditor-General. A decision to investigate a matter in more detail may follow, in which case it is likely that further requests will be made through Ministers for information and hearings will be held with appropriate departmental representatives. Where appropriate observers from the Auditor Office and central agencies may be invited to attend hearings. At any stage of this process the Subcommittee may determine to prepare a report to Parliament on the matter. Such a report cannot be tabled in the Parliament until it is approved by the Full Committee.

To date, the Subcommittee has not found it necessary to specify formal terms of reference for these investigations. The specific focus of attention will be the matters identified by the Auditor-General but inevitably other issues, often a broader nature, may also be raised. The Subcommittee considers that it is important to highlight these wider contexts and therefore does not restrict its comments to the narrow issues alone. For example, in commenting on specific administrative problems at the National Gallery of Victoria the Committee drew attention to apparent uncertainties as to the division of responsibilities between the Council of Trustees and the Ministry for the Arts. This uncertainty seemed to be a fundamental source of the specific problems which led to the Auditor-General's adverse comments. In commenting on specific accounting issues the Committee has also attempted to see the wider issues involved such as the importance of developing generally accepted accounting standards or accounting guidelines pending such standards.

Where investigations by the Public Accounts Subcommittee are likely to raise particularly sensitive issues or where a more extensive investigation is likely to be necessary, formal terms of reference may be specified to guide its investigations. Terms of reference have, for example, been established to guide the Subcommittee's inquiry into program budgeting in the budget sector. Details of this inquiry are given in chapter 4.

3.3 Matters Arising from the Fourth Report of the Auditor-General for the Year 1983-84

The Public Accounts Subcommittee chose to look into matters raised in the Fourth Report of the Auditor-General for the year 1983-84 concerning the following organisations :

- V/Line Industries Pty. Ltd.
- National Gallery of Victoria
- State Insurance Office
- Construction Industry Long Service Leave Board
- Victorian Government Printing Office
- Country Fire Authority
- Office of the Public Trustee
- Ministry for Policy and Emergency Services
- Victorian Public Offices Corporation
- State Swimming Centre

In a number of cases, the issues had been raised by the Auditor-General in earlier reports, but had not been satisfactorily resolved by the time his Fourth Report for 1983-84 was tabled.

Of these matters considered by the Subcommittee, the first four became the subject of reports by the Economic and Budget Review Committee (Report Numbers 16, 17, 18 and 20). The other matters, although not resulting in reports, were investigated and either resolved or designated as matters on which the Committee would monitor future action. These are reported on briefly below.

3.3.1 Victorian Government Printing Office

The Auditor-General drew attention to the high level of outstanding invoices which had existed for a number of years. Notwithstanding standing instructions by the Department of Management and Budget (DMB) to departments to pay their accounts within 30 days, the Victorian Government Printing Office's (VGPO) debts outstanding for over 30 days stood on 30 June 1984 at \$1,632,965. The Chairman wrote to the Minister for Property and Services about the matter and received a response indicating that the following remedial action had been or was soon to be taken :

- the Treasurer had written to all Ministers seeking their assistance in reducing outstanding debts to the VGPO;
- the Department of Management and Budget had issued a new circular to departments on policy and procedures for managing the accounts payable function;
- the Minister for Property and Services would be writing to Ministers of all those agencies with outstanding amounts in excess of \$100,000 in order to ensure a real reduction in the debtors accounts; and
- in relation to disputed accounts, Departments are being asked to pay that proportion.

The Subcommittee was also informed that the VGPO is introducing a new computerised debtors system which will make the monitoring of debts much easier. In the interim, a manual 'ageing' of debtors as at 30 June 1986 was being carried out. In his Second Report for 1985-86, the Auditor-General reported that a computerised debtors system has been implemented for 1986-87, but the Office had not completed its manual ageing of debtors. He also reported that DMB was examining the recommendations of a special task force to review accounts payable procedures in departments. This review has now been completed and DMB has issued an Accounting Policy Statement No.2 on Accounts Payable.

The Subcommittee has resolved to take no further action on this matter for the time being. It will, however, continue to monitor progress in reducing the level of outstanding invoices.

3.3.2 Country Fire Authority

The Country Fire Authority has for a number of years engaged in the practice of transferring funds from its general account investments to its sale of property fund. The funds transferred represented income earned on general fund investments. The transfers have resulted in reductions in the cash balance of the general account which is required, under section 81 of the Country Fire Authority Act 1958, to be deducted from the expenditure estimates prepared for the purpose of calculating contributions due from insurance companies and the Government. As a result, the Government and insurance companies contribute additional moneys to the Authority's fund. The Auditor-General reported in his December 1982 report and also in the fourth reports for both 1982-3 and 1983-4 that the Authority had continued the practice as legal advice indicated that there was nothing in the Authority's Act to prohibit it. The

Auditor-General recommended that the practice should be reviewed by the Department of Management and Budget.

After making its own inquiries, the Subcommittee was informed that corrective action was being taken. Notwithstanding this, the Auditor-General indicated to the Subcommittee in April 1986 that the matter had not been satisfactorily resolved. The Auditor-General, in his Second Report for 1985-6 (tabled in March 1987), again indicated that the position of the Country Fire Authority remained unchanged, but that legislative changes were proposed regarding investment income. Amendments to the Fire Authorities Act in May 1987 allow the Authority to establish a number of specific funds and to pay into such funds amounts approved by the Governor-in-Council. The Subcommittee intends therefore not to further consider this matter.

3.3.3 Office of the Public Trustee

The Auditor-General recommended that the Public Trustee Act 1958 be amended to :-

- (a) require the Public Trustee to produce annual financial statements for audit; and
- (b) expedite the process of the banking of certain monies received by the Public Trustee.

The Attorney-General responded to the Subcommittee's inquiries by indicating that the Auditor-General's concerns were being addressed through legislative amendments. Amending legislation requiring the Public Trustee to prepare financial statements and to expedite the banking process was, in fact, included in the Guardianship and Administration Board Act 1986. The relevant section of the Act was not, however, proclaimed until 1987. The Subcommittee does not intend to pursue this matter any further.

3.3.4 Ministry of Police and Emergency Services

In his Fourth Report for 1983-84, the Auditor-General reported that the status of two matters raised in previous reports was unchanged. The matters related to failure to establish an internal audit section within the Ministry and weakness in internal control of police payroll and leave records.

In response to the Subcommittee's follow-up on these matters, the Minister for Police and Emergency Services indicated in December 1985 that certain action was being taken to resolve the weaknesses in the administration of police payrolls and leave records. The Minister also acknowledged the "in principle" case for internal audit staff, but said that financial constraints had so far prevented the funding of the necessary positions. In further advice to the Subcommittee, the Auditor-General indicated his view that the new internal control procedures were satisfactory. At the same time, he reaffirmed his position that an internal audit section should be established.

In his Second Report for 1984-85, the Auditor-General confirmed that corrective action had been taken in respect of police payroll and leave records. Further, in his Second Report for 1985-86, he noted that one internal audit position would be created in 1986-87 by the Ministry. Again the Subcommittee does not intend to pursue further its inquiries into this matter.

3.3.5 Victorian Public Offices Corporation

The Victorian Public Offices Corporation was established in 1974, with the function of providing publicly-owned office accommodation required by the Government of Victoria. In operational terms it is part of the Public Works Department.

The Auditor-General raised three concerns about the Corporation :

- the financial viability of the Corporation;
- the Corporation had suffered losses of more than \$9 million when the Geelong and Ballarat State Offices were revalued downwards; and
- the Corporation had purchased a property at 166 Wellington Parade, East Melbourne, purely as a means of effecting the transfer of certain monies from the Corporation Trust Account (Public Offices Fund) into the Consolidated Fund. The Auditor-General's view was that legislation permitting the direct transfer of funds would have been a preferable course of action, in that the real purpose of the transaction would not have been obscured.

In response to Subcommittee correspondence, the Minister for Property and Services indicated on 16 October 1985 that the Government had made a decision to abolish the Corporation. He also indicated that the valuation losses on the Geelong and Ballarat

offices were due to market factors which did not in any way diminish the value to the Government of those offices. He added that the direct replacement cost of the buildings would exceed their historic cost to the Corporation. In relation to the Wellington Parade transaction, the Minister commented that the move had facilitated the Government's decision to apply surplus Corporation funds to other expenditure priorities.

After considering the Minister's response, the Subcommittee sought further information relating to the construction of the Geelong and Ballarat offices. This was not received until August 1987. In view of the impending legislation to abolish the corporation, however, the Subcommittee decided to take no further action.

3.3.6 State Swimming Centre

The Auditor-General drew attention in his 1983-4 report to severe structural defects affecting the State Swimming Centre, and also to the defective timing and solar heating equipment at the Centre. He urged that action should be taken by relevant public bodies to determine where responsibility lay for these problems, and to take any action which might be available to obtain compensation or damages.

In response to Subcommittee correspondence, the Minister for Conservation, Forests and Lands forwarded to the Subcommittee various documentation which confirmed the severity of the problems. It was also indicated that the Public Works Department had placed the matter of the faulty timing equipment in the hands of their solicitors for further action. The contractors for the building had rectified faults located to date, but further problems were anticipated. No indication was provided to the Committee of any planned action to recover damages in relation to the faulty solar heating system.

The Auditor-General's Second Report for 1985-86 indicated that the position in relation to the recovery of costs and compensation remained unchanged, although the matter had been referred to the Department of Management and Budget for follow-up action. The Subcommittee resolved to take no further action on this matter for the time being.

3.4 Matters Arising from the Second Report of the Auditor-General for the Year 1984-85

Matters concerning the following organisations were selected by the Public Accounts Subcommittee for further examination :

- Cancer Institute Board
- Office of Corrections
- Victorian Prison Industries Commission
- Ministry for the Arts
- Ministry of Education

The Subcommittee also chose to consider issues raised in respect of government funding of privately sponsored projects with two government departments :

- Ministry for Police and Emergency Services
(Operation Emergency '85 project)
- Department of Sport and Recreation
(Australia Games and Sandown Motor Racing Circuit projects)

Action in relation to the issues raised concerning these organisations is briefly summarised below.

3.4.1 Cancer Institute Board

The Board's financial statements have been qualified by the Auditor-General since 1978-79 on the grounds that audit was unable to verify the amount of income due to the Board from private practitioners because existing arrangements did not provide for access to the practitioners' records. The problem has arisen as the result of the agreements entered into in August 1977 following the introduction of Medibank. The agreements were based on an "honour" system which allowed the practitioners to render accounts directly to the patients and to pay a percentage of the fee received to the Board for the use of the facilities at the Institute. They were for a term of five years with an option exercisable by the medical practitioner for a further five years. All agreements, except one which will be completed by 1989, are expected to be expire by September 1987. Consequently, the Committee has been advised that the Board will introduce a new form of agreement which will require that practitioners'

records be checked by the Board's internal auditor to verify the amount of income reported. The Auditor-General indicated to the Subcommittee that the implementation of the new agreements should eliminate the need for future qualification. As the matter now appears to be largely resolved, the Subcommittee decided not to pursue it any further.

3.4.2 Office of Corrections

Comments were sought from the Office of Corrections on three matters raised in the Auditor-General's Report.

- (i) The financial statements of the Office were qualified by the Auditor-General because the financial transactions relating to the Victorian Prison Industries Commission were not included, as required by the Annual Reporting (Administrative Units) Regulations 1985.

In its reply to the Subcommittee the Office explained the circumstances surrounding this qualification :

After consideration and subsequent advice from officers of the Auditor-General's Department, it was agreed that the Commission would report separately on its financial operations under the provisions of the Annual Reporting Act.

Draft statements were prepared within the stipulated timelines and were accepted by senior auditors. However, when the statements reached the point of final certification by the Auditor-General senior opinion differed.

The Office of Corrections was given the opportunity to amend those statements or to have a technical qualification. It was decided to accept the latter in order to meet the required timelines of 30 September 1985 and to incorporate the Victorian Prison Industries Commission in future years.

The Committee notes that from 1985-6 the financial transactions of Vic Pic have indeed been included in the financial statements of the Office of Corrections. The Second Report of the Auditor-General for the year 1985-86 indicated that the position in this respect was satisfactory.

- (ii) Audit observed that details of the exchange of goods and services provided free of charge between the Office of Corrections and the Victorian Prison Industries Commission were not included in the Office's financial statements.

The Office advised the Subcommittee that :

The 1986-87 Budget Appropriations have been increased to cover the cost of services between organisations. Goods received by the Office of Corrections are paid for against Vote Appropriations and the cost of Victorian Prison Industry Commission salaries, including prison overseers and farm managers, are met from the Victorian Prison Industries Trust Fund.

This matter was reported in the Auditor-General's Second Report for 1985-86 as unchanged for 1985-86, but details were to be included in financial statements for 1986-87.

- (iii) Audit recommended that an internal audit function be established by the Office of Corrections. The Office advised the Subcommittee that an internal Auditor was appointed in July 1986.

In view of actions taken by the Office of Corrections to resolve the issues raised by the Auditor-General and the continuing review of reports of the Auditor-General by the Subcommittee, it was decided that no further action was necessary.

3.4.3 Victorian Prison Industries Commission

The Committee requested comments from the Commission on three matters raised by the Auditor-General in his report. The Commission commenced operation in July 1984 with its operations being financed from a program within the Office of Corrections. Under this budgetary framework, the Commission received and supplied significant goods and services free of charge. The first matter raised by the Auditor-General concerned the non-disclosure of details of these transactions in the Commission's financial statement. Second, there was inadequate evaluation undertaken for the purchase of a cardboard box business by the Commission's implementation team. Third, there was an excess balance of cash, for which no interest was received, standing in the Commission's account prior to forwarding to the Department of Management and Budget.

The Committee did not receive a response to its request for comments on these matters. In his Second Report to Parliament for the year 1985-86, the Auditor-General reported on a number of serious matters concerning mis-management of the Commission's operations and financial affairs which culminated in the resignation of the former General Manager of the Commission. Following the tabling

of this report and the appointment of a new Chairman of the Commission, the Chairman again wrote to the Commission regarding the matters raised by the Auditor-General (see 3.5.5). After considering the response from the new Chairman of the Commission, the Subcommittee decided not to take further action because corrective action had been taken to deal with many of the issues identified by the Auditor-General and aspects still requiring attention were receiving the on-going high priority of the Commission.

3.4.4 Ministry for the Arts

The Auditor-General expressed concern regarding the timing of payments made by the Ministry under the Museum of Sport project. The construction of a Museum of Sport was undertaken as part of Victoria's 150th Anniversary celebrations. The project was funded partially by a Commonwealth Government grant of \$1m. Funds from the Commonwealth Government were made available to Victoria's 150th Anniversary Celebrations Committee, whose administration came under the Ministry for the Arts.

In two separate reports, the Third Report for the year ended 30 June 1984 and Second Report for the year 1984-85, the Auditor-General commented that two payments (1983-84 : \$300,000 and 1984-85 : \$250,000) made by the Ministry were not in accordance with government policy, viz. the Department of Management and Budget instruction 83/7 issued in April 1983. The instruction required that such payments be "made to meet the needs of the organisation concerned, rather than just being made on a regular basis or before being actually required".

The Subcommittee obtained comment on this matter from the Ministry for the Arts, the Department of Management and Budget and the Office of the Auditor-General. A hearing on the matter and on accountability issues with respect to Commonwealth specific purpose payments generally was also held on 2 September 1987 with representatives from these organisations. The Subcommittee intends to prepare a report on the issues involved for consideration by the Full Committee and possible later presentation to the Parliament.

3.4.5 Ministry of Education

Audit identified a number of matters relating to procedures operating within the Ministry for managing grants and subsidies to schools. Among the issues raised were

the inadequate accountability for recurrent grants to government schools and the timing of grant and educational allowance payments to schools. With respect to the first matter, audit found that many schools had either failed to submit their audited financial statements as required or not always separately disclosed grants and related expenditure. In its reply, the Ministry stated that it had developed a computerised accounting system for installation in schools which will facilitate the recording and reporting of expenditure against specific grants.

With respect to the timing of grant payments, audit recommended that the Ministry should consider introducing monthly payments instead of quarterly instalments as now so that interest earnings of the State could be maximised. This recommendation was not supported by the Ministry. However, the Ministry advised the Subcommittee that the frequency of grant payments would be examined as part of its review of the block grant concept.

Audit also questioned the adequacy of the 25 per cent rate applied to salaries to cover on-costs of seconded teachers. It was recommended that a review of this rate be carried out by the Department of Management and Budget as this percentage had remained unchanged for over 5 years. The Subcommittee was later advised by DMB that a revised salary on-cost recovery rate of 45 percent had been issued in May 1987.

The Subcommittee is continuing to review matters raised by the payment of government grants to third parties.

3.4.6 Ministry for Police and Emergency Services

In his audit of the Ministry, the Auditor-General expressed concern at the serious inadequacies and shortcomings which permeated the management of the Operation Emergency '85 project. This project was developed as a joint venture between the Metropolitan Fire Brigade, the Ministry and Commonwealth Industrial Gases Ltd., the primary sponsor, as part of Victoria's 150th anniversary celebrations. It aimed to raise funds to establish the Combined Emergency Services Fund. However, the project failed to raise sufficient funds to cover the cost of the joint venture. It incurred a deficit of approximately \$1.2m of which half had to be borne by the State. As a result, the Auditor-General expressed an opinion that proper accountability procedures and guidelines must be established for government departments and authorities wishing to undertake projects jointly sponsored by private sector. The Subcommittee has yet to complete its consideration of this matter.

3.4.7 Department of Sport and Recreation

The theme of poor project management was also identified by the Auditor-General in projects administered by the Department of Sport and Recreation. The Auditor-General reported on substantial cost overruns on two projects sponsored by the Department, due to its failure to establish clear responsibility for the projects.

The first project was the staging of the inaugural Australia Games in 1985 as part of Victoria's 150th Anniversary, in which an additional funding of \$920,000 had to be contributed by the Government over and above the initial State grant of \$375,000. The second project was the development of an international standard motor racing circuit at Sandown, in which the Government had to provide \$706,000 where originally no State funds were to be committed.

The Auditor-General expressed concern that no uniform guidelines existed for government funding agencies to monitor and control projects jointly sponsored by the State. The Subcommittee was advised by the Department that it had now developed guidelines for the funding of projects carried out jointly with the private sector. It suggested that these guidelines encompassed the recommendations made by audit.

A research group was commissioned in 1984 by the Social Development Cabinet Committee to consider the funding of non-government agencies. A report was issued by the Department of Premier and Cabinet in May 1986 and a working group chaired by the Department was set up to implement the report's recommendations. Draft Guidelines for the development of proforma grant application forms and service agreements were prepared by the Department of Management and Budget and have been circulated to funding departments for comments.

The Subcommittee is continuing its review of these matters. It intends to consider in more detail the case for implementing effective uniform guidelines for jointly sponsored projects.

3.5 Matters Arising from the Reports of the Auditor-General for 1985-86

The Public Accounts Subcommittee selected two matters raised in the Auditor-General's First Report accompanying the Treasurer's Statement for the year ending 30 June 1986, for further consideration :

- the format and content of the Treasurer's Finance Statement; and
- the Effectiveness Review Committee's guidelines on engagement of consultants.

From the Second Report of the Auditor-General for 1985-86, the Subcommittee sought further information on issues relating to the following organisations :

- Ministry for the Arts
- Attorney-General's Department
- Victorian Prison Industries Commission
- Department of Community Services
- Health Department Victoria
- Director of Housing
- Department of Property and Services
- Department of Water Resources
- Liquor Control Commission

3.5.1 Treasurer's Statement

In his First Report for 1985-86, the Auditor-General suggested a number of changes in the presentation of the Treasurer's Statement to make it more informative and meaningful and commented on a range of other matters. The Committee Chairman wrote to the Treasurer seeking comments on recommendations made by the Auditor-General in relation to the format and content of the Treasurer's Statement, on certain matters concerning the financial operations of State government organisations, and on matters still unresolved from previous reports. The Treasurer's response attached comments from the Department of Management and Budget on the issues raised.

DMB advised that although a number of steps had been taken to simplify the presentation of the Treasurer's Statement consistent with recommendations made by the Auditor-General, some changes could not be fully implemented until the legislation is modified. One of the major recommendations of the Auditor-General was the adoption of reporting based on accrual accounting principles. DMB stated that it supported in principle the move towards greater use of accrual accounting. To this end, it noted that significant steps had been taken to include additional financial information of the accrual type such as debtors, creditors and inventories, but further research work needed to be undertaken.

Another recommendation concerned recognition of assets and liabilities in the Treasurer's Statement. The Government has taken action to include details of public sector debt in the Statement. Also, as stated in the Notes to the Treasurer's Statement for the year ended 30 June 1987, the Treasurer has approved a project to improve asset recording and reporting by budget sector agencies.

The Subcommittee considers that it could play a useful role in examining and commenting upon proposed changes to the Treasurer's Statement and changes to reporting requirements affecting Government organisations. It will continue therefore its interest in this area.

Matters raised with the Treasurer concerning the financial operations of government organisations related to the administration and accountability of grants and subsidies, and the operation of the Treasury Trust Fund. DMB indicated that it has primary responsibility for establishing accountability principles and criteria to be adopted by government funded agencies and that draft guidelines were in preparation. The Subcommittee has expressed an interest in being consulted on these guidelines. In part the preparation of such guidelines can be seen as a response to the Committees sixteenth report on V/Line Industries Pty. Ltd. In relation to the operation of the Treasury Trust Fund, the Subcommittee was advised that the Comptroller-General had issued a directive to all Chief Administrators in February 1987 on the procedures for using the Fund.

The Committee also obtained comment from DMB on matters outstanding from previous Auditor-General's reports. One of the matters was that the balance of Consolidated Revenue deficits at 30 June 1970 was still unfunded and temporarily financed from the Public Account. DMB responded that this issue required :

... a deficit funding appropriation Act or the setting aside of funds in Works and Services to cover the deficit. The source of funds to meet ongoing operations are fully committed and it is therefore unlikely that specific appropriation action will be taken.

Another matter was the need for disclosure in the Treasurer's Statement of unspent Commonwealth moneys previously held in trust accounts. DMB replied that as these amounts are already disclosed in Budget Paper No. 5, there is not a need to duplicate the reporting of this information.

The operation of the State Management Accounting and Financial Information System (SMAFIS) was another matter raised by the Subcommittee. In responding to the Subcommittee's inquiry, DMB attached a status report prepared in December 1986 for the Auditor-General regarding actions taken by it with respect to the FM80 system. The Subcommittee notes that in his most recent First Report for 1986-87 the Auditor-General has commented that improvements have been made to the accountability of SMAFIS, but other issues including automatic interface, user involvement and training programs remained unchanged. This and other matters on which DMB has provided comment are still subject to on-going consideration by the Subcommittee.

3.5.2 Effectiveness Review Committee

In his First Report for 1985-86, the Auditor-General commented on non-compliance by departments and public bodies, wholly or partly-funded from the Consolidated Fund, with the Effectiveness Review Committee's (ERC) guidelines on the engagement of consultants. The Auditor-General made a number of detailed recommendations to improve accountability in this area.

The Committee Chairman wrote to the Premier seeking comment on the Auditor-General's recommendations. Secretarial and administrative support for the Effectiveness Review Committee is provided by the Department of Premier and Cabinet. The Treasurer, however, undertook to reply to the Committee as he is advised by the ERC on consultancy procedures. In summary, the Treasurer agreed with all the recommendations made by the Auditor-General, and outlined actions taken by the ERC.

After considering the Treasurer's reply, the Chairman advised the Treasurer that the Subcommittee would not be pursuing the matter further but would continue to monitor the situation through its examination of the Auditor-General's reports. However, in his First Report for 1986-87 the Auditor-General again raised issues concerning the engagement of consultants. He found that :

- . Some \$4.2m or 28 per cent of consultancy engagements did not receive prior authorisation;
- . there was little improvement in the forwarding of consultancy performance reports to the ERC; and

- . the applicability of consultancy approval requirements to agencies had not yet been clarified. (p.42)

The Subcommittee is concerned that procedures relating to the engagement of consultants still do not appear to be enforced effectively.

3.5.3 Ministry for the Arts

The Subcommittee sought comment from the Ministry on a number of matters arising from the audits of certain Arts agencies.

First, audit considered that remuneration received by two full-time employees of the Ministry holding non-statutory part-time appointments with arts organisations might be in conflict with government policy. The Ministry advised that, after the Department of Premier and Cabinet was consulted on the issue, the two officers involved resigned their part-time appointments.

Second, audit recommended that action be taken to implement a museum-wide integrated register of the State Collection of exhibits at the Museum of Victoria (estimated to contain about 12 million items). The Ministry informed the Committee that effective collection management lies in the adoption of effective computer technology. As such, Museum staff had been working on the transfer of manual records to computer systems. However, it had also been recognised that collection management systems must be integrated with other management information systems. To this end, the Museum had engaged consultants to assist in this area. A copy of the consultants report has recently been provided to the Subcommittee.

Third, the Auditor-General commented on the lack of monetary valuation of the collection held by the State Library. In its reply the Ministry stated that an estimated value of \$200m was placed on the collection based on current market values. However, in a meeting between the Ministry, art agencies and DMB, "it was agreed that the Library should continue to report on the State Collection as it has done previously". The Ministry also noted that it had requested representation on a DMB project to develop an accounting policy for asset recording and reporting.

A related issue concerned the qualification by the Auditor-General on the financial statements of a number of Arts agencies for non-depreciation of buildings in

accordance with the Australian Accounting Standard AAS 4. The Ministry hoped that this issue would be considered within the above project and that it would have an input to the development of the accounting policy on assets.

Fourth, the financial statements of the State Film Centre of Victoria for the years ended 30 June 1984 and 1985 were qualified because the Auditor-General was unable to form an opinion on these statements. The Ministry and audit differed in their interpretation of the legislative reporting requirements for the Centre. An opinion provided by the Victorian Government Solicitor confirmed the assets of the State Film Centre under the control of its governing Council and advised that revenue collected by the Centre should be paid into the Council's accounts instead of the Consolidated Fund. As a result, steps have been taken to complete the Council's 1985-86 financial statements.

Fifth, audit commented on the lack of control over income from major art exhibitions held at the National Gallery of Victoria. The Ministry responded that the contractual arrangements between the organiser of these exhibitions and the Gallery had varied for each exhibition. However, it was intended that future contracts be negotiated for Gallery staff to sell and control admission tickets.

The Subcommittee was pleased to receive a detailed and prompt response from the Ministry to its request for information on these matters. It proposes to take no further action on them at this stage although it has a continuing interest in those issues which relate to the application of accrual accounting in the public sector.

3.5.4 Attorney-General's Department

The financial statements of the Department were qualified by the Auditor-General on the grounds that it did not have the necessary systems in place to report the total amount due for outstanding court fines. The Department included an estimate of \$21m which audit could not substantiate.

The problem, according to the Auditor-General, related to the lack of adequate computer facilities to provide the necessary information on warrants and the lack of co-ordination between the Department and the Ministry for Police and Emergency Services on the computerisation of records.

In response the Department stated that an integrated computerised system had been developed on a progressive basis. In addition, a joint working party between the Department and the Police has been formed to resolve warrant issues.

The Committee also referred the Department's response to the Auditor-General for further comment. The Auditor-General indicated that from initial inquiries it appeared that the Department will be able to satisfactorily determine a value for court fines. Hence, there may be no need for future qualification.

Other matters raised by the Subcommittee with the Department related to alleged inadequate leave recording and maintenance procedures, reporting requirements for the Patriotic Funds Council and the Supreme Court Common Fund, and lack of control over fines by the Prothonotary's Office. These were considered to have been adequately addressed or to be in the process of being rectified. The Subcommittee therefore intends to take no further action on them.

3.5.5 Victorian Prison Industries Commission

The Auditor-General reported that the audit of the Commission for 1985-86 had not been finalised due to its failure to prepare satisfactory financial statements. More importantly, audit identified significant deficiencies in the management of the operations of the Commission.

By way of providing the Committee with an updated account of actions taken by the Commission to improve the efficiency of its operations the new Commission Chairman forwarded a copy of a briefing paper submitted to the Attorney-General in response to the audit report. The Subcommittee noted the specific points made in this paper and agreed that the implementation of a restructured management organisation within the Commission should help to improve its efficiency. The Subcommittee decided not to pursue these matters any further (see 3.4.3).

3.5.6 Department of Community Services

Audit first commented in 1982-83 that payments made by the Department to transport authorities for fare concessions to pensioners were not based on the value of the actual concessions granted to pensioners. Instead, payments were made based on the amount provided in the annual appropriations which in 1985-86 totalled \$17.8m. Audit

has recommended that legislative requirements governing these payments be clarified as to whether they are in the nature of a subsidy or represented re-imbusement of the value of the actual concessions granted to pensioners. The Subcommittee is still waiting for a response from the Department to its follow up on this matter

3.5.7 Health Department Victoria

Inadequate controls over the operations of the free travel scheme administered by the Department for people with limited means to attend treatment at public hospitals, were identified by audit in 1983-84. The controls related to authorisation and accounting procedures for travel vouchers, and establishment of the bona fides of applicants. In addition, it was noted that the full cost of fares, rather than the concession fare, was met for pensioner cardholders who comprised approximately two-thirds of the scheme users.

The Minister for Health advised the Subcommittee that in view of the Commonwealth Government's decision to transfer to the States responsibility for the Isolated Patients Travel and Accommodation Assistance scheme, the Department has developed a proposal for the integration of this scheme with the free travel scheme, to operate from January 1988. A review of procedures is underway and new procedures are expected to address the issues raised by audit. The Minister has indicated that he will advise the Subcommittee further on this matter in near future.

The Subcommittee also has a continuing interest in arrangements for auditing public hospitals in Victoria. In its first report and in subsequent reports the Committee took the view that the Auditor-General should be the external auditor of public hospitals. Under existing arrangements, however, private sector auditors conduct these audits and report directly to hospital Boards, not to Parliament. Progress in modifying these arrangements to improve public accountability has been disappointingly slow. The Subcommittee has discussed this matter with representatives from the Office of the Auditor-General, Health Department and Victorian Hospitals' Association and it intends to report on it in the near future to the Full Committee and, if approved, to the Parliament.

3.5.8 Ministry of Housing

The Auditor-General has highlighted an increase in the level of rental arrears both in absolute terms and as a percentage of total collectable rent faced by the Ministry of Housing in its rental operations.

In response to a request for information from the Subcommittee, the Director of Housing outlined the economic and other factors which contributed to the problem and the actions taken to deal with it, including training of staff, drafting of a handbook for rental recovery procedures, providing advice to tenants facing hardship conditions and improving monitoring and reporting systems. Despite these actions, the Auditor-General noted that the level of rental arrears at 30 June 1987 remained unsatisfactory. The Subcommittee will continue therefore to monitor the level of rental arrears.

In his Second Report for 1985-86 the Auditor-General also reported on deficiencies of computer systems for the Housing Operations Management Executive System (HOMES) and the Capital Index (CAPIL) projects. The Subcommittee has concluded that corrective action has been taken to rectify the difficulties experienced with the CAPIL system. However, the difficulties associated with the HOMES system remain cause for concern.

Delays and cost overruns were experienced during the development of the HOMES system. These problems appear to have been largely caused by non-performance of the contractor and legal proceedings against the contractor have been instituted in the Federal Court. The non-implementation of the planned HOMES system has impacted adversely on the Ministry's ability to produce accurate and meaningful information.

In response to its problems with HOMES, the Ministry has belatedly reconsidered its approach to information systems strategy. An updated strategy is expected to be completed in early 1988.

3.5.9 Department of Property and Services

Two matters concerning the lease rental activities of the Department were identified by the Subcommittee for further consideration. First there is the definition adopted by the Department for unproductive rentals which audit considered did not reflect an

accurate assessment of dead rentals for a given period. Second, the Subcommittee wished to consider the audit recommendation that the Department should report the leasing commitments for its entire leasing portfolio, not just new leasing arrangements. A recent reply by the Minister is being considered by the Subcommittee.

3.5.10 Department of Water Resources

The Auditor-General drew attention to a number of significant matters arising from the audit of local water and sewerage authorities. Of prime concern was that various authorities had failed to prepare financial statements for audit within the required statutory timeline. Furthermore, a number of water authorities had continued to maintain separate accounting records for each former authority following their restructure.

The Department informed the Subcommittee of the impressive progress made in recent years to improve the standard of reporting and to strengthen the accountability of authorities in the water sector.

A major change for these authorities was from cash to accrual based accounting. With it, new reporting legislation, supporting regulations and an accounting manual had to be developed. The Department expects that 1986-87 financial statements will be more timely in submission as authorities are now much more familiar with the requirements. In addition, links between the Department and the Office of the Auditor-General have been strengthened to monitor compliance by authorities. The Department has advised authorities of the need to consolidate their accounting records and has provided assistance for those experiencing difficulties.

The Auditor-General indicated to the Subcommittee his agreement that measures taken by the Department will lead to improved financial reporting and more timely presentation of financial information in future. However, financial statements for a number of authorities are still outstanding. The Subcommittee will continue to monitor the timeliness of financial reporting by water and sewerage authorities through its review of the Auditor-General's reports. It is continuing its consideration of a number of subsidiary matters raised during its brief investigation of auditing and reporting arrangements in the water industry.

3.5.11 Liquor Control Commission

In his Second Report for 1985-86 the Auditor-General commented on the lack of legislative requirements for reporting by the Liquor Control Commission. Audit recommended that consideration be given to amending the relevant Act to bring the Commission into line with other public bodies. The Subcommittee also noted that specific auditing and reporting provisions were not contained in the new Liquor Control Bill 1987. Informal advice from the Department of Management and Budget indicated that the new Liquor Licensing Commission would be incorporated under the Annual Reporting Act when the relevant regulations currently being drafted for "Contributed Income Sector Organisations" were approved. The Minister for Industry, Technology and Resources confirmed that the new Commission would be brought under the Annual Reporting Act and indicated that it was understood that the regulations would be in place before the Commission made its first report.

CHAPTER FOUR

OTHER ACTIVITIES OF THE COMMITTEE

4.1 Discussion Paper on the Review of Budget Estimates by Parliament, July 1987, 84 pages

This discussion paper was produced with the aim of achieving greater consensus among the political parties represented in Parliament as to the proper role and function of an Estimates Committee or Committees. Whilst the review of budget Estimates was within the functions specified for the Economic and Budget Review Committee, other activities had prevented the Committee from pursuing the function. Previous experience with an Upper House Estimates Committee in the 1986 Spring Session of Parliament in Victoria had, moreover, pointed to the longer term need to develop a more widely accepted approach. In preparing the discussion paper the Committee had the benefit of a number of submissions and in particular one from the Treasurer which summarised the view of the Government.

The discussion paper reviewed the background to the Estimates review function in Victoria and discussed Parliament's role generally in scrutinising public expenditure. It highlighted Parliament's limited ability to influence the level and composition of State public sector outlays and pointed to the potentially important role of an Estimates Committee in enhancing the information available for parliamentary scrutiny.

The paper tentatively estimated that Parliament's scrutiny was effectively limited to around 65 per cent of State public sector outlays. This was on the basis that annual appropriations do not cover the non-budget sector, special or standing appropriations or Trust Fund expenditures. Those areas subject to annual appropriation also often have little flexibility due to budgetary 'lock in'. Furthermore, Parliament has only a minor involvement in formulating and implementing budgets. And budget debates are of limited usefulness. They do not influence the preparation of the Estimates and members generally do not have the expertise, training and information with which to make effective contributions. Party discipline and the political imperative of passing the Appropriation Bills means that the Estimates are seldom seriously questioned. In reviewing budget outcomes there has been a tendency to focus on compliance with authorised appropriations and to neglect issues of efficiency and effectiveness of

expenditures. However, by allowing parliamentarians to question Ministers and senior bureaucrats directly, an Estimates Committee may assist parliamentarians to obtain a greater understanding of government decision making processes and of performance in the use of appropriated funds.

The discussion paper also considered experience elsewhere in Australia with Estimates Committees, in the Commonwealth Senate and South Australian House of Assembly, and in other countries, the United Kingdom, Canada and New Zealand. It cautioned against the simplistic notion of attempting to transfer directly to Victoria models appropriate for other circumstances.

As an appropriate model for Victoria, however, it was recommended that a new select joint Estimates Committee be established, initially by resolution of the Parliament. This Committee would review the Estimates of Expenditure and Receipts presented to Parliament and also review the efficiency, effectiveness and economy of government programs on an on-going basis. The objectives and focus of review of such a Committee were outlined in the paper together with procedural matters relating, for example, as to how the Estimates review function would impinge on Parliament's consideration of the Appropriation Bills. A draft resolution to establish the Estimates Committee was incorporated in the paper for consideration.

Subsequent to the release of the discussion paper, the Parliament moved to establish an Estimates Committee along the lines recommended by the discussion paper. This new Committee has been appointed until 31 May 1988.

4.2 Inquiry Into Program Budgeting

In April 1987 the Economic and Budget Review Committee initiated an inquiry into program budgeting within Victorian government agencies. Program Budgeting is a management approach which focusses attention on government policy objectives, the specific programs designed to meet these objectives, the resource inputs allocated to the programs and the results achieved. Traditional line item budgets in contrast focus just on inputs and do not facilitate analysis of the efficiency and effectiveness of resource use.

The Committee's interest in this inquiry reflects the importance it attaches to the successful implementation of program budgeting. As it is now four years since the

Government announced its intention to introduce program budgeting in all budget sector agencies such an inquiry seemed timely. The Committee foreshadowed in its first report to the Parliament in April 1983 that it intended to review developments in areas such as program budgeting when they had been in operation long enough to be evaluated. The Auditor-General also indicated to the Committee that he considered that a review of program budgeting should have a high priority in the work of the Public Accounts Subcommittee.

The Committee has set the following terms of reference for this inquiry :

to inquire into and report upon the principles and practice of Program Budgeting within Victorian Government Agencies as contained in, inter alia, the Appropriation (1986-87, No. 1) Act 1986 and 1986-87 Budget Paper No. 5 - Budget Summary and Program Budget Expenditures 1986-87 - with a view to :

- (a) assessing the suitability of the model of program budgeting which has been adopted;
- (b) assessing progress in the implementation of program budgeting;
- (c) making practical recommendations on ways in which improvements might be made in the implementation and design of program budgeting in Victoria; and
- (d) generally assessing the extent to which Program Budgeting meets the needs of Government and Parliament.

No definite date for completion of a report has been fixed by the Committee. The completion date will, in part, depend on the availability of resources to the Committee and the co-operation received from departments and others. To date the Committee has advertised for submissions; background research has been completed for the Committee by its research staff; a questionnaire has been sent to all departments; and hearings have been conducted with central agency and departmental representatives.

Whilst the Committee is generally pleased with the degree of co-operation it has received from departments, it is not impressed with the apparent laxness in administration in some departments which have still to respond to the questionnaire after some 18 weeks.

4.3 Background Paper on Fiscal Policy and State Government Budgets

One aspect of the work of the Committee's research staff is to produce background material on subjects that are of general interest and relevance to the functioning of the Committee. A matter to which staff have devoted some attention concerned the operation of State Government fiscal policy. This work led to the production of a background paper which considers how to assess the degree of stimulus or restraint governments impose on the economy, and what scope there is for independent State fiscal policy.

The paper suggests that the most appropriate measure of fiscal stance is the cyclically-adjusted deficit for the public sector as a whole (including the budget and non-budget sectors) adjusted for the effects of inflation on the holders of government bonds. It also concludes that the scope for independent State fiscal policy is limited, especially given the tighter Loan Council controls exercised under the Global Approach and reductions in the level of State financial assets (hollow logs).

The Committee expects in the near future to publish this paper as a staff paper prepared for the Committee.

4.4 Biennial Conference of Public Accounts Committees

The Fifth Biennial Conference of Public Accounts Committees was held in Sydney on 27-29 May 1987. The conference was attended by approximately 70 people including representatives from all State and Territory Public Accounts Committees, Commonwealth parliamentary committees, Auditors-General, academics and others. Present at the conference were representatives from the Victorian Public Bodies Review Committee and Economic and Budget Review Committee. Those to attend from the Economic and Budget Review Committee included the Chairman, the Hon. David Henshaw, M.L.C., Deputy Chairman, Mr Don Hayward, M.P., Mrs Elizabeth Gleeson, M.P., Mr Frank Sheehan, M.P. and Mr Alan Stockdale, M.P. The Committee's Director of Research also attended the conference.

The Chairman of the Committee presented a resume of activities of the Economic and Budget Review Committee to the conference. Speakers at the conference included the Secretary of the N.S.W. Treasury, the Managing Director of the Australian Broadcasting Commission, the N.S.W. Minister for Planning and Environment and the

S.A. Public Accounts Committee Chairman. Themes developed by the speakers included the need to improve accountability in the public sector especially in relation to subsidiary companies of government organisations, joint ventures and trusts and in relation to Commonwealth specific purpose payments; desirable steps toward enhancing efficiency and effectiveness in the public sector including the introduction of program budgeting; the need for better asset management; and the relevance of accrual accounting to the budget sector of government.

The conference provided a valuable opportunity to exchange views and develop thoughts concerning future directions and appropriate methods of operation for the Economic and Budget Review Committee to follow.

4.5 The Auditor-General and Parliament

The Economic and Budget Review Committee has a close liaison with the Auditor-General and his office. To assist other members of Parliament to become more familiar with the work of the Auditor-General, the Public Accounts Subcommittee in October 1987 invited all members of Parliament who wished to attend to a Subcommittee meeting with the Auditor-General. The Auditor-General briefed members on his First Report to Parliament for 1986-87. This was generally considered to be a useful opportunity for members to broaden their knowledge of State finances and to pursue particular matters of interest. It is intended that similar forums may be held in relation to future reports of the Auditor-General.

4.6 Proposed Staff Secondment From the Office of the Auditor-General

The Committee has been exploring the possibility of enhancing its effectiveness by arranging a rotating secondment scheme of staff from the Office of the Auditor-General to work with the Committee. It is considered that such an arrangement would benefit both the Committee, through access to additional expertise and knowledge of the workings of the Audit Office, and staff in the Audit Office, through the wider experience they would gain working with the Committee. To avoid suggestions of possible conflict of interest, secondees would be regarded as employees of the Committee for the period of their secondment and would not be working on matters where such conflict might arise. Successful implementation of the proposed secondment arrangement, however, depends on approval being obtained for additional funding for the Committee. It is envisaged that the secondees might be partially funded by the Committee and partially by the Audit Office.

4.7 Overseas Visits

During May-June 1986, the Chairman of the Committee, the Hon. David Henshaw, M.L.C., visited the UK, USA, Canada and New Zealand on a Commonwealth Parliamentary Association study tour. In the UK he visited the House of Commons and had discussions with the Chairman and Clerk of the Committee of Public Accounts concerning the operations of that Committee and attended a briefing session with the Committee Chairman and Comptroller and Auditor-General. He also attended a hearing of the Committee. In the USA he had meetings with representatives of the United States General Accounting Office, the Senate Committee on Government Affairs and the House Committee on Government Operations. In Canada meetings were held with the Chairman of the Canadian Parliament's Standing Committee on Public Accounts and representatives of the Ontario Provincial Legislature. Finally he visited Wellington and had talks with the Deputy Chairman of Committees and others concerning the operation of the committee system in the New Zealand Parliament.

Two other members of the Committee also visited other Parliaments under the auspices of the Commonwealth Parliamentary Association. Mr John Harrowfield, M.P., Chairman of the State-Federal Finances Subcommittee, visited North America and Europe in May-August 1987 and investigated aspects of inter-governmental relations particularly affecting local government. In the United States of America discussions were held with key organisations including the Advisory Committee on Inter-Government Relations, the Office of Management and Budget, the National League of Cities and the National Association of Counties. In the UK he held discussions with members of the House of Commons on a range of matters including the economic effects of poll taxes.

The Hon. G.P. Connard, M.L.C. also visited the UK where he held discussions with the Chairman of the Select Committees of the House of Commons and the Commonwealth Parliamentary Association on the operation of the new select committee system and the role of the Committee of Public Accounts and former Estimates Committee. In addition, he investigated aspects of the administration of the Westminster Parliament and the procedures of the House of Commons Commission. Whilst overseas Mr Connard also attended the International Hospital Congress in Helsinki and following this the Serbian Medical Association Congress in Belgrade.

In July 1987, Mrs. My Chappell, Research Officer with the Committee, was seconded for 3 days whilst on leave in the UK to study aspects of the operation of the

committee system in the House of Commons and other particular matters of interest to the Committee. She had discussions with representatives of the Committee of Public Accounts, National Audit Office, Audit Commission and H.M. Treasury.

4.8 Enhancing Awareness of the Committee's Activities

It is important that there be wide understanding of the work of the parliamentary committees. To this end, when opportunities have arisen, staff have addressed public forums and responded to general requests for information. The Committee's Director of Research has in recent times addressed a Joint Royal Australian Institute of Public Administration and Department of Management and Budget Seminar on Financial Information Systems and Accountability to the Parliament, and the Annual Conference of the Victorian Bush Nursing Association on the Review of Bush Nursing Services undertaken by the Economic and Budget Review Committee. He has also participated in Public Service Board financial management training activities to explain the role and operation of the parliamentary committees.

COMMITTEE ROOM

28 October 1987

APPENDIX 1

MINISTERIAL RESPONSE TO THE FIFTEENTH REPORT OF THE ECONOMIC AND BUDGET REVIEW COMMITTEE ON ASPECTS OF STATE-FEDERAL FINANCIAL RELATIONS, 7 OCTOBER 1987

On 21 October 1986, the Parliamentary Economic and Budget Review Committee tabled a report in Parliament into aspects of State-Federal Financial Relations.

The Report dealt with two references from the Governor in Council, the first an inquiry into revenue payments from the Commonwealth to the State, and the second an inquiry into the distribution of taxation powers. As these two issues are closely linked, the Committee determined to deal with both references in the one report.

The Committee has canvassed the issues most comprehensively and the Government is particularly pleased to note the substantial consenses achieved on the major issues. Such political bi-partisanship in relation to State taxation powers and revenue raising is most heartening.

I take this opportunity to preface the Government response to the Committee report with some general observations about State-Federal financial relations which, as honourable members will see, are very much in line with the contents of this report from the Economic and Budget Review Committee.

There is a demonstrable imbalance between the revenue raising powers of the Commonwealth Government relative to the State governments when account is taken of their respective constitutional responsibilities.

As a consequence, principally, of wide judicial interpretations of the restrictions imposed on the States under section 90 of the Constitution, and the practical monopoly by the Commonwealth of income taxation, the States have had to rely, increasingly, on Commonwealth payments.

There are basically two types of payments by the Commonwealth to the States - general revenue payments and specific purpose payments.

General revenue payments from the Commonwealth, including fiscal equalisation payments to the State comprise, approximately 56 per cent of total Commonwealth payments to the States. Decisions regarding general revenue payments from the Commonwealth to the State are formalised at the Premiers' Conference.

Whilst, in principle, the Premiers' Conference is a forum for consultation and negotiation between the Commonwealth and States, it does not, in reality, involve the States in having much effective input into the actual decision-making process which determines the proportion of revenue raised by the Commonwealth which will be returned to the States.

This problem is severely aggravated for Victoria because of the application of the equalisation process which, put simply, diverts revenue destined for the States from the more densely populated States to the less densely populated ones. Thus, if in 1986-87, general revenue grants to Victoria had been distributed on an equal per capita basis rather than according to the equalisation process actually applied, Victoria would have received an extra \$456.6 million.

This outcome demonstrates that the equalisation process has gone too far and has become itself a source of budgetary difficulties for Victoria and New South Wales. While it is true that some problems are more severe in sparsely populated areas and some services may be more expensive, it is also true that urban Victoria and New South Wales also have high concentrations of other problems which themselves require extensive remedies. Yet the current process virtually ignores the latter, while making special provision for the former.

Inefficiencies arise from the fact that equalisation in respect of States recurrent expenditure involves subsidising the provision of government services in States where they are relatively expensive to provide. The subsidy is effectively paid by the taxpayers in those States, such as Victoria, where the costs are lower.

As the Victorian submission to the Grants Commission's current review of relativities demonstrates, such subsidising leads the governments and their citizens to make inefficient economic choices.

Specific purpose payments provide substantial revenue transfers from the Commonwealth to the States. In 1985-86, payments to the States amounted to \$8,176

million, of which Victoria received \$2,142 million. They cover a wide range of programs, some of which may reflect the desire of the Commonwealth to pursue national goals, but many others are simply indicative of the imbalance of the revenue resources immediately available to the Commonwealth and the States, respectively. As such, they also underline the need for a more realistic re-structuring of federal/state fiscal relations.

Let me now turn to the specific issues considered by the Committee.

CONSULTATION

The Government concurs with the Committee's recommendation in relation to intergovernmental consultation and co-operation on financial and economic policy matters. The Government agrees with the Committee that appropriate forums for consultation to address the problems of State-Federal finances are urgently needed.

TAX POWERS

The Government agrees, in principle, with the recommendation that the States should have access to an appropriate range of taxes. This is necessary to achieve the goal of relieving the gross vertical imbalance between the Commonwealth and States which exists at present. I should emphasise that we are not seeking an increase in revenue to government overall, but simply a redistribution of existing revenue to accord with relative State and Federal responsibilities.

It should also be noted that these issues were before the Working Party of Treasury Officials, which reported at the 1987 Premiers' Conference, and are also being addressed by the Constitutional Commission.

The Government welcomes the Committee's support on this issue and will continue to pursue this fundamental issue until it is satisfactorily resolved.

In relation to tax sharing, the Government agrees, in principle, with the Committee's recommendation that the Commonwealth Constitution should be amended to permit the States and the Commonwealth to enter binding tax sharing agreements and to permit revision of these agreements over time. The timing of the required referendum is, of course, a matter for judgement by all States and the Commonwealth.

The Committee also correctly calls for the Commonwealth's withdrawal from the financial transactions tax field. As the Committee observed, the Commonwealth is a relative late-comer to the field of financial transactions taxes. Financial institution duties were introduced in 1982-83 by all States except Queensland as a more efficient method of tax raising than the stamp duties they replaced. The Commonwealth introduced a bank debits tax in 1983 which, it should be noted, is less neutral and more regressive than the financial institutions duty. The Government endorses the Committee's recommendations that the Commonwealth should leave the financial tax field to the States.

SPECIFIC PURPOSE PAYMENTS

The Government endorses the Committee's recommendation that specific purpose payments should be restricted only to legitimate national priorities or for resolving inter-jurisdictional problems.

I should add that, in asserting that the case for specific purpose payments relates to national priorities or because of inter-jurisdictional problems, the State Government identifies the major fiscal distortion to be the inadequacy of revenue raising power enjoyed by the States relative to expenditure responsibilities. So whilst it may be argued that many specific purpose payments are not dealing with national priorities, nor with inter-jurisdictional problems, it is no solution merely to withdraw such funds from the State. The proper remedy is to provide States with sources of revenue commensurate with their expenditure responsibilities.

Consistent with this recommendation, it is also the Government's view that the terms and conditions attached to specific purpose payments should be prescribed in legislation or subordinate legislation, when practicable to do so.

The Committee recommended, in order to ensure specific purpose payments are used only in accordance with legitimate national priorities or for inter-jurisdictional reasons and to ensure accountability, the strengthening of intergovernmental mechanisms (particularly Ministerial Councils) to ensure proper consultation and negotiation prior to the enactment of legislation establishing new Commonwealth tied grant programs. The Committee further recommended regular joint reviews to ascertain whether the continuation of particular tied grant programs is warranted or whether they should be converted into general revenue grants.

In Victoria, steps have already been taken to improve the administrative process related to specific purpose payments. In July 1986, the Government adopted systematic procedures for the acceptance, re-negotiation or variation of specific purpose payments so as to facilitate assessment of these payments from the overall budgetary perspective of the State and from the standpoint of State economic policy.

The Government intends to use this process as a vehicle to enhance the effectiveness of negotiations on specific purpose payments and to ensure that the overall interests of the State are protected. The Victorian Government's intention is to ensure that its priorities are injected into the relevant intergovernmental mechanisms, including Ministerial Councils. It is also the Government's view that the development of this administrative process will provide for improved accountability to the State Parliament.

PARLIAMENTARY SCRUTINY

The Committee recommended that a State Parliamentary mechanism be established to examine specific purpose payment agreements and the working of relevant intergovernmental procedures and mechanisms and the tabling in Parliament of an annual report on specific purpose payments. The Committee proposes that the report should include an overview of developments in the field and advise on terms and conditions of new or revised payments arrangements.

The Government has ensured that, as part of the budget papers, the information to Parliament on specific purpose payments has increased in recent years. The Government will examine the need for, and prospect of providing, consolidated information on terms and conditions along the lines recommended by the Committee.

A factor in this consideration will include the fact that, as the State Budget has preceded the Commonwealth Budget for 1987-88, an information paper on Commonwealth payments to or for Victoria will be released after the Commonwealth Budget.

FISCAL EQUALISATION

As I have already indicated, Victoria took an active part in ensuring that in its current Review, the Commonwealth Grants Commission was requested to report "as to

whether, in its view, application of the principle of fiscal equalisation has any significant consequences for the efficient allocation of resources across Australia".

The Government's submission to the Commission has elaborated on this matter in considerable depth, and the Government continued to press these points at the Victorian hearings held in June this year. The Grants Commission report is due in March 1988 and it will be fitting indeed if, in the year of the nation's bicentenary, this leads to a much needed revamping of State/Federal financial relations to bring them more into accord with current realities.

The Committee has requested a further reference to examine the principle and procedures underlying fiscal equalisation in Australia. As I have said, the Government has pressed the Grants Commission most strongly to examine the allocative efficiency implications of fiscal equalisation. In these circumstances, it is considered advisable to await the Grants Commission report before pursuing any further inquiry on the matter at State level.

In conclusion, I compliment the Committee for work well done. It is to be hoped that this work, together with other on-going efforts, will ultimately yield a more effective and a fairer Federal fiscal system.

APPENDIX 2

MINISTERIAL RESPONSE TO THE EIGHTEENTH REPORT OF THE ECONOMIC AND BUDGET REVIEW COMMITTEE ON STATE INSURANCE OFFICE : THE ACCOUNTING MEASUREMENT OF COMPULSORY THIRD PARTY OUTSTANDING CLAIMS LIABILITIES, 17 AUGUST 1987

This Statement is made in response to the recommendations made by the Economic and Budget Review Committee in its Eighteenth Report to the Parliament entitled "State Insurance Office : The Accounting Measurement of Compulsory Third Party Outstanding Claims Liabilities."

The report deals with various aspects of the financial and accounting operations of the S.I.O.; and in particular, those concerning compulsory third party ("CTP") motor vehicle insurance. This area has recently been taken over by the Transport Accident Commission ("TAC"), and many of the areas of concern identified in the report are being resolved as a result of the Government's Transport Accident Protection initiative.

1. The first recommendation of the Committee is that the professional accounting bodies, in conjunction with the insurance industry, be urged to develop an appropriate accounting standard which would cover the issues contained in the report. I wish to inform the Parliament that on 9th December 1986, I wrote to the Institute of Chartered Accountants, the Australian Society of Accountants, and the Australian Accounting Research Foundation requesting comments on the net present value approach to the valuation of third party claims, and emphasising the need for the development of an accounting standard for the insurance industry. The Australian Accounting Research Foundation has been developing a discussion paper over a period of several years entitled "Accounting for the General Insurance Industry" which is anticipated to result in the issuing of a draft Exposure Draft sometime later this year. Officers of the Comptroller-General's Division of DMB will play an active part in the consultative process of the development of the standard.
2. The Committee recommends that in addition to the disclosure of the outstanding claims liability in present value terms, the gross liability figure should also be clearly presented in the notes to the accounts. This was

provided for in Note 1(d) (iv) to the financial statements of the SIO for the year ended 30 June 1986, and I do not plan to seek any change to the SIO's present practice.

3. The recommendation to record investments in the balance sheet at market value, to maintain consistency with the use of the present value approach to measuring outstanding claims liabilities is supported by the Government and the SIO and will be carried out for the accounts for the current year. Valuations will be undertaken regularly so that the valuations are updated on a timely basis. The TAC will also value investments at market value.
4. The Committee recommended the use of the SIO's earnings rate to determine the discount rate. In relation to the question of the appropriate discount rate to use under the present value approach, it is however intended that a Commonwealth bond rate be used for both the SIO and TAC rather than an internal earnings rate. The action of discounting is taken to recognise the time value of money which is a macro-economic variable not considerably affected by any one entity. In addition it is possible that a single entity's portfolio earning rate will vary significantly over time, thus leading to an inconsistency in the discount rate selected. The discount rate should be a measure of the opportunity cost of money over time. A more appropriate measure of the time value of money is a figure equal to or approximating the relevant risk-free medium-term bond rate, which would represent the minimum reward that could be accepted for payment over the period of the run-off of the outstanding claims liability.
5. It is considered that many of the matters dealt with in paragraph 5 of the recommendations have already been dealt with in the most recent annual report of the SIO, being for the year ending 30 June 1986. The Board of the SIO is always seeking to improve the quality and content of the statistical and other information incorporated in its annual report. Much has been achieved in this regard in recent years and efforts will be made in the future to continue with the progress that has already been made in this direction.
- 5.(i) In relation to disclosing the expected yearly pattern of outstanding claims, the SIO intends to distinguish between current claims (ie. those payable within 12 months) and claims expected to be settled after 12 months. The level of detail

recommended by the Committee, however, is anticipated to be difficult to determine and would be unlikely to provide meaningful information that would benefit users of the financial statements.

The key actuarial assumptions adopted in assessing the value of outstanding claims will continue to be disclosed by way of note. In addition, any material impact on the calculations resulting from changes in actuarial assumptions will also be described in the annual report.

The sensitivity analysis of the impact of variations in key variables recommended in the Committee's report will only be done internally as part of the process of deciding on an appropriate measurement for outstanding claims by both the SIO and TAC. It is not appropriate that this information be published. I am aware of no other circumstances in either the Australian or overseas insurance industry where such information is presented in a public report.

It is intended that the recommendation to disclose details of performance in settling claims will be considered as part of the annual report, which would be more appropriate than to have it appear in the financial statements.

- 5.(ii) A brief investment performance report appeared as part of the most recent financial statements of the SIO, and is intended to remain as a standard feature of future SIO and TAC financial statements.
- 5.(iii) The Committee's recommendation to show projected cash flow requirements to meet liabilities is not a matter which is commonly reported by other organisations in the insurance industry. Such information would be prepared for internal purposes only. The SIO and TAC will however report liabilities so as to reflect future timing of payments so far as this can be estimated at the time of preparing the Annual Report.
- 5.(iv) The recommendation made to separately disclose receipts from the Consolidated Fund which are targeted for the CTP scheme has been satisfied by the recent establishment of the Transport Accident Commission. This body will produce separate accounts in which the operations of CTP insurance activities have been transferred to the TAC.

- 5.(v) The recommendation for the SIO to segment its balance sheet to highlight the position of the CTP scheme will be adopted for the year 1986/87. Following the transfer of assets and liabilities, (CTP related), the TAC will produce separate accounts specifically relating to CTP insurance. The government guarantee in relation to CTP was not renegotiated following the establishment of the TAC as it is intended that the scheme will be self-funding within a few years.
6. The Government is in agreement with the Committee's final recommendation, which is to bring the SIO under the provisions of the Annual Reporting Act 1983 and its regulations. It is the policy of this Government to eventually have all public bodies in the State of Victoria report under the Annual Reporting Act. However, bearing in mind the Committee's first recommendation for the development of an accounting standard for the insurance industry, it would seem undesirable to develop detailed standards in a vacuum which is expected to be filled in the near future with a comprehensive standard developed and supported by the accounting profession.

In the meantime, DMB, SIO and TAC have established a working arrangement which involves a close examination of the financial statements by DMB, and the State Insurance Office Act 1984 requires the Treasurer's approval of the form and content of these statements. The SIO complies with the spirit and intention of the Annual Reporting Act in that the report is currently presented to Parliament and is audited by the Auditor-General. The SIO also seeks to comply with the reporting provisions of the Companies (Victoria) Code and the Commonwealth insurance industry legislation. The preparation of appropriate regulations under the Annual Reporting Act by which the SIO would report is expected to proceed following the development of the related accounting standard by the professional accounting bodies. The TAC will submit financial statements for approval by me for the first time this year.

APPENDIX 3

EXTRACTS FROM THE RECORDS OF PARLIAMENT

MINUTES OF THE PROCEEDINGS OF THE LEGISLATIVE COUNCIL

Wednesday 25 September 1985

- 2 **Economic and Budget Review Committee** - The Honourable Evan Walker moved, by leave, That the Honourable W.R. Baxter, G.P. Connard, J.V.C. Guest and D.E. Henshaw be members of the Economic and Budget Review Committee from 1 October 1985.

Question - put and resolved in the affirmative.

Thursday 30 April 1987

3. **Economic and Budget Review Committee** - The Honourable Evan Walker moved, by leave, that the Honourable W.R. Baxter be discharged from attendance upon the Economic and Budget Review Committee, and that the Honourable R.M. Hallam be added to that Committee.

Question - put and resolved in the affirmative.

VOTES AND PROCEEDINGS OF THE LEGISLATIVE ASSEMBLY

Wednesday 25 September 1985

- 5 **Economic and Budget Review Committee** - Motion made, by leave, and question - That Mr Gavin, Mrs Gleeson, Mr Harrowfield, Mr Hayward, Mr McNamara, Mr Rowe, Mr Sheehan and Mr Stockdale be appointed members of the Economic and Budget Review Committee from 2 October 1985 (Mr Fordham) - put and agreed to.