PARLIAMENT OF VICTORIA

Public Accounts and Estimates Committee

Report on the 2018-19 Budget Estimates

Parliament of Victoria
Public Accounts and Estimates Committee

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Committee functions

The Public Accounts and Estimates Committee is a joint parliamentary committee constituted under the *Parliamentary Committees Act 2003* (Vic).

The Committee comprises nine members of Parliament drawn from both Houses of Parliament.

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

- any proposal, matter or thing concerned with public administration or public sector finances
- the annual estimates or receipts and payments and other budget papers and any supplementary estimates of receipts or payments presented to the Assembly and the Council
- any proposal, matter or thing that is relevant to its functions and has been referred to the Committee by resolution of the Council or the Assembly or by order of the Governor in Council published in the Government Gazette.

The Committee also has a number of statutory responsibilities in relation to the Office of the Auditor-General and Parliamentary Budget Officer.

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This report is also available online at the Committee's website.

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Acronyms and terms

(Asset) investment through other sectors	'Asset investment' funded through another sector (most commonly funded by the 'general government sector' and through the 'public non–financial corporations sector') for an asset that becomes part of that other sector. It is referred to in the budget papers as 'net cash flows from investments in financial assets for policy purposes.'
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACMI	Australian Centre for the Moving Image
AFL	Australian Football League
Agency	Government entities which generally receive their funding through 'departments' and for which 'departments' are responsible for reporting. Examples include Victoria Police, hospitals and 'TAFEs'. Agencies, like 'departments', are directly accountable through one or more ministers to Parliament.
ALCAM	Australian Level Crossing Assessment Model
AMP	Asset management plan
Appropriation	The authority to withdraw funds from the 'Consolidated Fund'. This may be a once-off authority (as provided in the annual Appropriation acts) or a standing authority (a special appropriation provided by another act).
ARV	Asset replacement value
Asset initiative	A new program or project ('initiative') that delivers assets. See 'asset investment'.
Asset investment	Expenditure on assets (generally infrastructure such as roads or hospitals) as opposed to expenditure on the delivery of products and services ('outputs').
Asset Recycling initiative	An arrangement under which the states that reinvest the proceeds of an asset sale towards productive infrastructure are eligible to receive a payment from the Commonwealth. The *Asset Recycling* payment rate from the Commonwealth is 15 per cent of the asset sale price.
ATM	Automated teller machine
Budget estimates	Forecasts for future years made in the budget papers about matters such as revenue, expenditure, assets, liabilities and goods and services to be delivered.
Budget papers	The set of documents released with the annual budget. These normally include the Treasurer's speech and volumes on: strategy and outlook; service delivery; capital investment; and the estimated financial statements.
CEO	Chief Executive Officer

COAG/Council of Australian Governments	The peak intergovernmental forum in Australia consisting of the Federal Government, the governments of the six states and two mainland territories and the Australian Local Government Association.
CUB	Carlton & United Breweries
Department(s)	Large government entities. Funding for most 'agencies' is generally provided through departments who are required to report on the financial and performance results of the agencies for which they are responsible. Departments, like 'agencies', are directly accountable through one or more ministers to Parliament. At 3 September 2018 there were seven departments in Victoria, plus Court Services Victoria and the Parliamentary Departments.
Direct (asset) investment	'Asset investment' by the 'general government sector', whereby an 'entity' such as a department manages the construction or purchase of the asset and owns the asset once it is complete.
DEDJTR	Department of Economic Development, Jobs, Transport and Resources
DELWP	Department of Environment, Land, Water and Planning
DET	Department of Education and Training
DHHS	Department of Health and Human Services
DJR	Department of Justice and Regulation
DPC	Department of Premier and Cabinet
DPS	Department of Parliamentary Services
DTF	Department of Treasury and Finance
ECL	*Environmental Contribution Levy*
EFTPOS	Electronic funds transfer at point of sale
EGM	Electronic gaming machine
Entity	Either a 'department' or an 'agency'.
FAL	*Financial Accommodation Levy*
Forward estimates period	The period for which estimates are made in the budget papers. This includes the budget year and the following three financial years. The forward estimates period for the 2018-19 Budget is 2018-19 to 2021-22 inclusive.
FRD	Financial Reporting Direction
GAIC	*Growth Areas Infrastructure Contribution*
GBE	Government business enterprise
General government sector	Departments and other entities that provide goods and services for no charge, or for charges significantly less than the cost of their provision.

General-purpose (GST) grants	Grants from the Commonwealth Government to the State Government sourced from 'GST' revenue. There are no restrictions imposed by the Commonwealth Government on how the funding can be spent.
Government infrastructure investment	A measure of 'general government sector' expenditure on infrastructure which includes: 'direct asset investment' (net of proceeds from asset sales); 'asset investment through other sectors'; and estimates of investment expenditure (made by the private sector) for 'public private partnerships'. This last component also includes any other unpublished expenditure on asset investment projects.
GDP/Gross Domestic Product	The total value of goods and services produced by the State in a year. This includes the goods and services delivered by the Government and the private sector.
GSP/Gross State Product	The total value of goods and services produced by the state in a year. This includes the goods and services delivered by the Government and the private sector.
GST	Goods and services tax
HFE/Horizontal Fiscal Equalisation	Refers to the 'GST' distribution arrangement in place between the States and Territories and the Commonwealth. As sub-national governments have different costs and capabilities to raise revenue, the HFE aims to address these fiscal differences. State governments receive funding from a pool of GST revenue to have the fiscal capacity to provide services and infrastructure at an equal standard. Equalisation intends to put all states on balanced fiscal footing.
HVHR	High Value, High Risk
IT	Information technology
Income tax equivalent revenue	Revenue received from government-owned corporations in payments that are levied to ensure the corporations operate on a competitively neutral basis with the private sector.
Initiative	A specific program or project detailed in the budget papers. Budget papers can include 'asset initiatives', 'output initiatives', 'revenue initiatives', 'revenue foregone initiatives' and 'expenditure reduction initiatives'.
Investments in financial assets for policy purposes	See '(asset) investment through other sectors'.
JARO	Justice Assurance Review Office
LGA	Local government areas
LGBTI	Lesbian, Gay, Bisexual, Transgender, Queer and Intersex
LUV	Land Use Victoria
Liabilities	Amounts that an organisation is obliged to pay in future years. Examples include borrowings and defined benefits superannuation plans.

MCEC	Melbourne Convention Exhibition Centre
NAHA	*National Affordable Housing Agreement*
NAH SPP	*National Affordable Housing Specific Purpose Payment*
NDIA	National Disability Insurance Agency
NDIS	National Disability Insurance Scheme
Net borrowings	New interest bearing liabilities raised from public borrowings during the year (less interest bearing liabilities repaid).
Net debt	A calculation based on the difference between the value of selected categories of financial assets and financial liabilities. Essentially, the difference in value between what the Government owes and assets that it could easily convert to cash. Not all financial assets and liabilities are included.
Net lending/ borrowing	A measure of financial performance in a year. This indicator is similar to 'operating surplus/deficit', but also includes some asset investment transactions, including some 'PPPs'. A negative figure indicates a net borrowing position, and a positive figure indicates a net lending position. The indicator does not take investments through other sectors into account.
NGV	National Gallery of Victoria
NHHA	*National Housing and Homelessness Agreement*
NPA	National Partnership Agreement
NPAH	*National Partnership Agreement on Homelessness*
OBR/Office of Budget Responsibility	An advisory non-departmental public body that the United Kingdom Government established to provide independent economic forecasts and analysis of public finances.
OECD	Organisation of Economic Cooperation and Development
OHS	Occupational Health and Safety
Operating result/operating balance	A measure of an entity's financial performance in a year. This is calculated by subtracting the entity's expenses in the year from its income. A positive result is referred to as an operating surplus; a negative result is an operating deficit. 'Asset investment' is not included in the operating balance.
Output	An aggregate of goods and services (such as health care or policing services) delivered by a 'department' or its 'agencies'. Outputs are identified in the budget papers.
Output expenditure	Expenditure on 'outputs' (that is, goods and services). This is distinct from 'asset investment', although it includes some expenditure on 'public private partnerships'.
Output initiative	A new program or project ('initiative') that delivers goods and services (part of a department's 'outputs'). Output initiatives are usually for a limited period of time, although they are sometimes perpetual.
PAEC	Public Accounts and Estimates Committee

PBT	Preliminary breath test
Peppercorn leases	A lease that is obtained at significantly below market value
PFC/Public financial corporation	See 'public financial corporations (PFC) sector'.
PNFC/Public non-financial corporation	See 'public non-financial corporations (PNFC) sector'.
PPP infrastructure investment	An estimate of the amount invested each year by the private sector on behalf of the State on PPP projects under construction.
PPP/Public private partnership	An arrangement in which the private sector delivers an asset on behalf of the Government. Ownership of the asset usually passes to the Government after a defined period of time.
PSC	Public Sector Comparator
PTV	Public Transport Victoria
Public Account	The Government's principal bank account. The Public Account includes the 'Consolidated Fund' and the 'Trust Fund'.
Public financial corporations (PFC) sector	Government-owned financial institutions, such as the Treasury Corporation of Victoria and the Transport Accident Commission.
Public non-financial corporations (PNFC) sector	Government business enterprises, such as water corporations, that are run on commercial lines and charge market-based rates for their services. Does not include 'agencies' providing financial services (see 'public financial corporations sector').
Public sector as a whole	The 'general government sector', 'public non-financial corporations sector' and 'public financial corporations sector' consolidated toget-her. Referred to in the budget papers as the 'State of Victoria'.
Purchase of non-financial assets	See 'direct investment'.
Revenue	Income received by the Government, mostly from State taxes and grants from the Commonwealth Government.
Specific purpose grants	Grants from the Commonwealth Government to the State Government with restrictions on how the funding can be spent.
TAC	Transport Accident Commission
TAFE/Technical and Further Education	A range of State-funded tertiary institutions that provide mainly vocational education. This is in contrast to universities, which are mostly funded by the Commonwealth.
TCV	Treasury Corporation of Victoria

TEI/Total estimated investment	An estimate of the total amount of expenditure required to deliver an 'asset investment' project.
VAGO	Victorian Auditor-General's Office
VAEA	Victorian Asbestos Eradication Agency
VCDI	Victorian Centre of Data Insights
VCGLR	Victorian Commission for Gambling and Liquor Regulation
VET	Vocational education and training
VG	Valuer-General Victoria
VicTrack	The trading name of Victorian Rail Track Corporation, a Victorian Government owned enterprise which owns all railway and tram lines, associated rail lands and other related rail infrastructure in Victoria.
VMIA	Victorian Managed Insurance Authority
VPS	Victorian Public Sector
VSBA	Victorian School Building Authority
VTP	*Victorian Transport Plan*

Chair's foreword

It's my pleasure to present the Committee's fourth and final report on the budget estimates for the 58th term of Parliament.

The report is the product of the Committee's deliberations on the 2018-19 budget and forward estimates and contains 21 recommendations to government. The recommendations are directed towards improving the transparency of funding allocations regarding schools and major projects such as the Metro Tunnel; enhancing the diversity of the Victorian public service; and ensuring the timely spending of funds allocated to programs for the homeless. The recommendations also suggest changes be made to measuring the performance of child protection services, myki ticketing and projects such as North East Link.

I would like to warmly thank Ministers, the Presiding Officers and executives for their preparation for the hearings and questionnaire responses. The hearings provided an invaluable opportunity to Members from the five different parties represented on the Committee to scrutinise the Government's plans to raise revenue and spend in the vicinity of $68.1 billion in 2018-19. There were 56 hours of hearings this year.

The pressure of population growth on schools is very evident to families. The Committee decided to delve into the funding that has been committed towards school infrastructure this year as part of the estimates process. I thank the Victorian School Building Authority and Minster for Education for supplying the additional information requested in such a fulsome and timely manner.

I pay tribute to my fellow PAEC members for their demonstrated commitment to the budget estimates process throughout the parliamentary term. Finally, I would like to acknowledge the valuable support provided by the PAEC Secretariat including Kathleen Hurley and Amber Candy, ably led by Dr Caroline Williams.

It has been a privilege working as Chair of the PAEC this Parliament. The Committee makes an important and respected contribution towards improving the transparency, efficiency and effectiveness of public expenditure.

Danny Pearson MP
Chair

Executive summary

Chapter 2: Revenue

Chapter 2 examines the Government's estimates for revenue for 2018-19 and across the forward estimates. The Government estimates it will receive $69.5 billion in revenue for 2018-19. Just under half of all revenue is expected to come from grants—mainly from the Commonwealth. State taxation revenue is expected to raise $24.1 billion or 34.7 per cent of total revenue. The proportion of goods and services tax (GST) revenue received by Victoria will increase in 2018-19, due to an increase in the State's relativity level, reflecting recent strong population growth. Land transfer duty is expected to raise $7.1 billion in 2018-19 and grow at an average annual rate of 3.2 per cent over the forward estimates period.

Several education grants from the Commonwealth Government to Victoria have yet to be finalised, creating funding uncertainty in the Education portfolio. No State has thus far signed up to the *National Housing and Homelessness Agreement*—which combines two large-scale National Partnership Agreements relating to housing and homelessness—creating funding uncertainty for homelessness services.

Revenue from gambling and gaming is expected to grow each year, with the largest annual growth coming from Crown Casino. A new levy on online bookmakers' monthly winnings will commence on 1 January 2019 and is expected to raise $30 million a year.

The Treasurer advised the Committee that the 40 year lease of the land titles and registry functions of Land Use Victoria will maintain the current provisions for privacy and data protection, customer service, government ownership of registry data and fees and charges paid into State revenue. On Monday 27 August 2018, the Hon Tim Pallas MP announced a concession was granted to Victorian Land Registry Services to operate the land titles and registry functions of Land Use Victoria for $2.9 billion.

Chapter 3: Borrowings and debt

Chapter 3 examines the estimates for general government sector borrowing and net debt for the budget year ending June 2019 and over the forward estimates ending in June 2022. The chapter discusses the Government's plans to considerably increase borrowings and net debt in the coming years to fund its forward infrastructure program.

Borrowings for the general government sector are expected to reach $37.0 billion by June 2019, increasing by an average annual growth rate of 10.2 per cent over the forward estimates, to reach $45.0 billion by June 2022. The expected level of borrowings over the forward estimates period is higher than any level seen over the last decade.

The Committee found that the Government is on track to meet its six per cent of gross state product (GSP) net debt target for the general government sector. Higher than expected proceeds from the Port of Melbourne lease and Snowy Hydro asset sale have resulted in lower than expected net debt levels over the last two years.

The Committees notes that the overall costs of a number of significant infrastructure projects announced as part of the 2018-19 Budget, such as *North East Link*, are not reflected in the forward estimates.

Victoria continues to experience the highest population growth rate out of all Australian states, increasing by 2.3 per cent in the year to December 2017. While Victoria's GSP growth rate for 201617 of 3.3 per cent was also the highest in Australia, on a per capita basis, Victoria's GSP growth is less than New South Wales and South Australia.

Chapter 4: Output expenditure

Chapter 4 examines output expenditure for the general government sector in 2018-19 and over the forward estimates period. Total output expenditure for the general government sector is expected to be $68.1 billion in 2018-19, reaching $72.1 billion in 2021-22. Output expenditure is expected to increase at an annual average of 3.9 per cent over the forward estimates period. This growth rate is lower than the estimated average growth rate of 4.6 per cent between 2011-12 and 2017-18.

The Committee discusses spending across the three largest output expenditure components for 2018-19. These are employee expenses ($25.6 billion, or 37.5 per cent), other operating expenses ($21.3 billion, or 31.2 per cent) and grant expenses ($12.9 billion, or 18.9 per cent).

It then examines in detail three areas of government expenditure that are of significant public interest. These areas are:

- health expenditure and its impact on intergenerational equity
- initiatives and spending on homelessness
- issues related to the use of contractors, consultants and labour hire by departments.

The Committee found that health expenditure accounts for a growing proportion of Victoria's budget and is a risk to the future sustainability of the Budget. The primary cost drivers include new technologies and treatments, rising incomes and increased consumption of healthcare and rising rates of chronic disease.

The number of homeless people in Victoria increased by 36.7 per cent, from 18,154 people to 24,817 people, between 2001 and 2016. The uncertainty associated with Commonwealth funding agreements presents a risk for funding and service delivery to people experiencing homelessness. Responses to the Committee's questionnaire highlight underspending in output initiatives designed to alleviate homelessness.

The Committee found there is little uniformity across departments in defining what constitutes labour hire and applying labour hire guidelines. Several key risks were identified with the engagement of contractors and consultants by departments, including confidentiality concerns, high costs as well as a missed opportunity to enhance in-house information technology capability.

Chapter 5: Asset investment

Chapter 5 examines the expected levels of infrastructure investment in 2018-19 and over the forward estimates. It considers the three major components of government infrastructure investment. These are net direct investment, net investment through other sectors and public private partnerships (PPPs) and other investment. Three areas of asset provision outlined in the 2018-19 Budget that are of significant public interest and government investment are also examined. These are:

- school infrastructure
- the *Metro Tunnel* project
- asset investment in Victoria's creative industries.

Government infrastructure investment for 2018-19 is forecast to be $13.7 billion, a $2.1 billion (or 18.1 per cent) increase from the revised figure for 2017-18. Government infrastructure investment is expected to decline over the forward estimates period, falling to $7.6 billion by 2021-22.

Net direct investment is expected to increase to $9.7 billion in 2018-19 due to major upgrades to roads and public transport services. PPP investments are expected to peak at $5.6 billion in 2018-19 before falling to $2.3 billion in 2021-22. Net investment through other sectors is expected to remain negative in 2018-19 with a $1.6 billion cash flow expected. This is expected to increase to over $2.5 billion for 2019-20 and 2020-21 before falling to $693 million in 2021-22.

Changes in Australian accounting standards coming into effect are expected to improve the transparency of PPP assets and lease arrangements including peppercorn leases.

Rapid population growth has increased the need to build new schools and upgrade existing schools. The 2018-19 Budget contains funding for the design and early works at nine schools, construction of additional stages of school buildings at seven schools and building of 12 new schools. The Committee explores the role of the Victorian School Building Authority (VSBA) and some of the challenges it faces including growing enrolments, asbestos removal, asset maintenance

and investment in special schools. The Committee has recommended greater transparency around investment in new schools, school maintenance and asbestos removal priorities.

The Committee examines and makes several findings regarding the *Metro Tunnel* project. The evolution of the project is discussed along with the risks that are associated with multiple changes to the project funding estimates, scope, timing and accountability arrangements. The Committee notes that while the estimated investment figure for the project in the 2018-19 Budget is $11.0 billion, public documentation on the four works packages that comprise the project only amounts to $7.7 billion.

Two outputs are examined regarding funding for Victoria's creative industries. These are *Creative Industries Access, Development and Innovation* ($80.6 million) and *Creative Industries Portfolio Agencies* ($378.8 million). They include the funding of asset-based projects, the redevelopment of the Australian Centre for the Moving Image and plans to revitalise the Melbourne Arts Precinct.

Chapter 6: Performance measures

Chapter 6 examines implementation of Victoria's performance management framework by the departments. The chapter specifically discusses the comprehensiveness of performance measures and changes to outputs for 2018-19, new performance measures and shortcomings with performance measures identified by the Committee during its inquiry. The chapter also considers performance measures proposed for discontinuation in 2018-19, including those the Committee regards should be retained.

The Committee found that there is significant variation between departments and the average number of performance measures per output. This indicates that some departments have not implemented the performance framework optimally. The Department of Education and Training has the lowest proportion of timeliness measures.

The Committee notes that 13 new measures in total across six departments do not provide a sufficiently comprehensive picture of performance. The measures include issues such as random drug tests in prisons, training courses for health professionals in sexual and reproductive health and the release of notifications to the community regarding environmental hazards.

There is a risk some targets in the 2018-19 budget papers have been set artificially low and that others may be too high, leading to contradictory incentives to falsify or over report performance.

Recommendations

3 Borrowings and debt

4 Output expenditure

5 Asset investment

1 Introduction

1.1 The Public Accounts and Estimates Committee

Under the *Parliamentary Committees Act 2003* (Vic), the Public Accounts and Estimates Committee (PAEC) is required to:

> ... inquire into, consider and report to the Parliament on ... the annual estimates or receipts and payments and other Budget papers and any supplementary estimates or receipts or payments presented to the Assembly and the Council.

This report presents the findings and recommendations of the Committee as a result of the *Inquiry into the 2018-19 Budget Estimates*. It is the culmination of the Committee's scrutiny of the Budget and public spending for the upcoming financial year.

1.2 The inquiry process

In order to assist the Committee members with their deliberations as part of this inquiry, a questionnaire was sent to all departments and their agencies prior to the start of the public hearings. This year the questionnaire was sent on 15 March 2018 for return on 20 May 2018. The topics in the questionnaire included:

- the economic outlook for 2018-19 and the impact of this on the Budget
- lapsing programs and expenditure reduction measures taken by the departments
- new output and asset initiative funding
- the impact of proposed and existing projects financed under public private partnership arrangements
- revenue raising initiatives and Commonwealth funding initiatives relevant to the departments
- staffing matters
- the use of contractors, consultants and labour hire
- information on new performance measures introduced as part of this year's Budget.

Additional questions were addressed to the Department of Health and Human Services on homelessness initiatives and outcomes within the questionnaire. The Committee also corresponded with the Department of Education and Training regarding the school infrastructure program after the public hearings. Two questions to Minister Pulford were not answered fully at the time the report was adopted by the Committee.

In writing this report, the Committee primarily used evidence presented at the public hearings, information provided by departments in the questionnaires and responses provided to questions taken on notice.[1]

A considerable amount of departmental resources is allocated to preparing for the Committee hearings and responding to written requests for information. The Committee would like to acknowledge this significant investment by Ministers, the Presiding Officers and departmental staff in the inquiry process.

The transcripts of the public hearings, slide shows of the Ministers' presentations and responses to the questionnaires, questions taken on notice and additional questions can be found on the Committee's website.[2]

1 Ministers and other departmental officers at the budget estimates hearings may ask to take questions from Committee members 'on notice'. This means that the response to the question is likely to be detailed, include complex information or require the compilation of data. The answers to questions on notice are provided to the Committee Chair in writing after the hearings.

2 https://www.parliament.vic.gov.au/paec

BOX 1.1: The role of Parliament, the Budget and scrutiny of the budget estimates

Parliamentary control of public money is fundamental to responsible government. One of the main functions of the Victorian Parliament is to grant the State Government the authority to spend money on services such as hospitals and police, and infrastructure such as the construction and maintenance of freeways and schools.

Under Victoria's Constitution, the Government needs the approval of the Parliament to raise money through taxes, rates and duties. The Government prepares a Budget each year. Essentially, this is the Government's spending and revenue raising plan, also known as the budget estimates.

The Budget begins its journey through the Parliament when the Treasurer introduces it to the Legislative Assembly. Members of Parliament get the opportunity to examine and debate the Government's spending proposals before they approve them.

The Budget is introduced as an attachment to a piece of legislation, called the Appropriation Bill. This bill must be passed before the government is authorised to spend public money. This year, the Appropriation Bills[(a)] were introduced to the Parliament on Tuesday 1 May 2018.

The PAEC is one of Parliament's oversight committees. Through the annual budget estimates process, the Committee scrutinises the Government's spending and revenue raising plans.

Every Minister is invited to appear before the Committee at a public hearing in the weeks immediately after the Budget has been introduced into the Parliament. At the hearings Committee members ask Ministers questions about:

- the Government's objectives and planned budget outcomes
- issues of financial significance to the State, such as spending, revenue, funding or investment
- matters of significant public interest
- opportunities for enhancing public accountability and resource management
- how the presentation of budget information to the Parliament and the community can be improved
- how public administration can be made more economical, efficient and effective.

This year the public hearings were held from 15 May 2018 to 15 June 2018 with the Premier, Treasurer, Ministers, Parliamentary Presiding Officers and senior departmental officials all appearing before the Committee.

The Committee's report on the budget estimates contains recommendations to the Government and is usually tabled in the spring session each year. The Government must provide its response to the Committee's recommendations in Parliament within six months.

The budget estimates process generates a number of significant outcomes, including greater transparency and parliamentary control over public spending, presenting financial information in the budget papers and annual reports in an easy-to-understand format, and making changes to departmental performance measures and targets so they are appropriate and challenging.

(a) There are two Appropriation Bills as the Parliament receives separate funding from the Executive.

1.3 Implementation of previous recommendations made by the Committee

In October 2017, the Committee made 35 recommendations to government as part of its *Report on the 2017-18 Budget Estimates*. The Government supported 14 (40 per cent) of the Committee's recommendations. Another 10 recommendations (29 per cent) made by the Committee were 'supported in principle' and four (11 per cent) were placed 'under review' by the Government.

The Committee found that three of the supported recommendations have not yet been implemented by the relevant departments. These related to:

- data from the Australian Level Crossing Assessment Model on risks by individual level crossings, which has not been published on Victoria's Open Data Portal (recommendation 9)[3]
- the revised *Victorian Government Risk Management Framework*, which is due to be released in 2019 (recommendations 23 and 27).[4]

Seven of the recommendations were not supported (20 per cent). These recommendations included:

- the introduction of intergenerational reporting (recommendation 1)
- further information being included in the budget papers on funding arrangements for programs that have been reprioritised (recommendation 21)
- updating the 2009 *Corporate Planning and Performance Reporting Requirements for Government Business Enterprises* document to give a more detailed explanation of the Government's dividend policy (recommendation 22)
- the need for more information on the Environmental Contribution Levy to be publicly available (recommendations 32 and 33).[5]

Further details of the Government's response to the Committee's *Report on the 2017-18 Budget Estimates* that was tabled on 30 April 2018 are set out in Appendix 1.

3 Department of Premier and Cabinet, *Victorian Government Data Directory* <https://www.data.vic.gov.au>, viewed 3 September 2018

4 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2017-18 Budget Estimates,* tabled on 30 April 2018, pp.11, 13

5 ibid., p.16

2 Revenue

Key findings

- The Government estimates it will receive $69.5 billion in revenue for 2018-19. Just under half of the overall revenue, at $33.5 billion or 48 per cent, is expected to come from grants, mainly from the Commonwealth. After grants, state taxation revenue is expected to raise $24.1 billion, or 34.7 per cent of the total.
- The proportion of goods and services tax revenue received by Victoria will increase in 2018-19. The increase has been driven by an increase in the State's relativity level, reflecting the State's recent strong population growth.
- The Commonwealth Government's proposed changes to horizontal fiscal equalisation will change how future goods and services tax revenue is distributed to the states and territories.
- Education grants from the Commonwealth Government to Victoria for early childhood education, schools funding and skills development have yet to be finalised and this has created funding uncertainty in the Education portfolio.
- The two large scale National Partnership Agreements relating to housing and homelessness are proposed to be replaced with the *National Housing and Homelessness Agreement*, although no state has yet signed this agreement with the Commonwealth.
- Land transfer duty is expected to raise $7.1 billion in 2018-19 and grow at an average annual rate of 3.2 per cent over the forward estimates period, a slower rate than in recent years. This reflects an anticipated slowdown in the property market, driven by forecast increases in interest rates and further tightening of bank lending conditions.
- Any changes to the regulatory regime for car finance may change the price or volume of car sales and transfers into the future, and this may impact on the amount of revenue raised.
- While the Government's cap on gaming machines in combination with population growth has effectively reduced the density of electronic gaming machines per person, harm minimisation measures such as maximum bet levels and spin speed do not apply to machines within the Crown Casino.
- Revenue from Crown Casino over the forward estimates is expected to grow at an average annual rate of 3.1 per cent, higher than the rate for electronic gaming machines (1.8 per cent) and for gambling taxes overall (1.6 per cent).
- The Government intends to introduce an eight per cent levy on online bookmakers' monthly winnings starting from 1 January 2019. The Victorian rate of eight per cent is less than the South and Western Australian rate of 15 per cent.

2

- The Treasurer advised the Committee that the 40 year lease of the land titles and registry functions of Land Use Victoria will maintain the current provisions for privacy and data protection, customer service, government ownership of registry data and fees and charges paid into State revenue.
- The Government expects one of the benefits of leasing the land titles and registry operations of Land Use Victoria to a private operator will be greater efficiency through information technology innovation. On Monday 27 August 2018, the Hon Tim Pallas MP announced a concession was granted to Victorian Land Registry Services to operate the land titles and registry functions of Land Use Victoria for $2.9 billion.

2.1 Introduction

This chapter examines the Government's estimates for revenue for 2018-19 and across the forward estimates to 2021-22. The discussion in the chapter is divided into the revenue streams listed in the budget papers. These are:

- grant revenue (section 2.3)
- State based taxation (section 2.4)
- sales of goods and services (section 2.5)
- other revenue (section 2.6)
- dividends (section 2.7).

The chapter is not only informed by the budget papers and departmental responses to the Committee's general questionnaire, but also by the evidence given to the Committee by Ministers and senior officials at the public hearings held over May and June 2018.

At this year's hearings, topics related to revenue discussed by the Committee include the composition and outlook for gambling taxes, the impact of the Victorian land titles and registry 'commercialisation' on sales of goods and services revenue.

The Committee has also found a number of developments taking place at the Commonwealth level may impact on the revenue estimates for 2018-19 and beyond. These developments include:

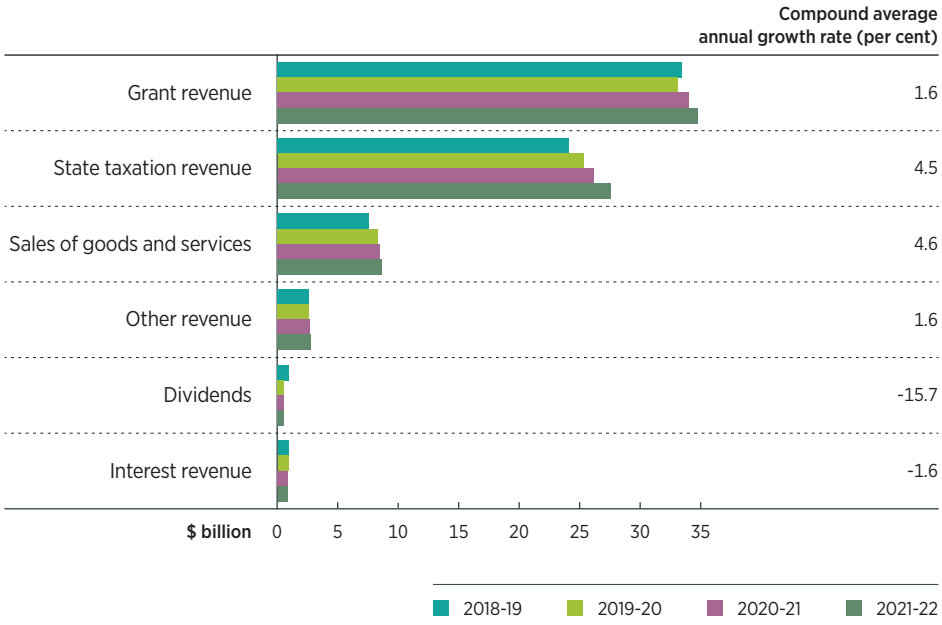
- the renegotiation of a number of large scale national partnership agreements (NPAs)

- the Commonwealth Government's response to the Productivity Commission's *Inquiry into Horizontal Fiscal Equalisation*[6]
- any future regulatory changes that result from the current Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

2.2 Overall revenue projections in the 2018-19 Budget

The Government estimates it will receive $69.5 billion in revenue for 2018-19.[7] Just under half of the overall revenue, at $33.5 billion or 48 per cent is expected to come from grants, mainly from the Commonwealth. After grants, state taxation revenue is expected to raise $24.1 billion, or 34.7 per cent of the total. Sales of goods and services, which includes fees and charges for various government services such as technical and further education (TAFE) fees, is expected to be $7.5 billion. The remaining components of revenue for 2018-19 are other revenue, which includes fines and royalties ($2.6 billion), dividends ($922 million) and interest revenue ($864 million).[8]

Figure 2.1 General government sector revenue by source for Victoria, 2018-19 to 2021-22



Source: Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.7

6 Horizontal fiscal equalisation (HFE) refers to the GST distribution arrangement in place between the States and Territories and the Commonwealth. As sub-national governments have different costs and capabilities to raise revenue, the HFE aims to address these fiscal differences. State governments receive funding from a pool of GST revenue to have the fiscal capacity to provide services and infrastructure at an equal standard. Equalisation intends to put all states on balanced fiscal footing. Source: Commonwealth Grants Commission, *What is fiscal equalisation?* <https://www.cgc.gov.au/index.php?option=com_content&view=article&id=258&Itemid=536>, viewed 9 July 2018

7 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.7

8 ibid.

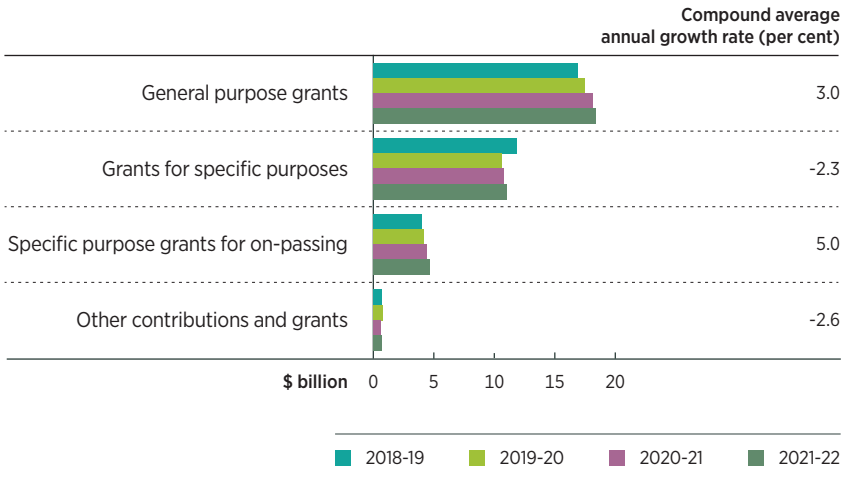
FINDING 1: The Government estimates it will receive $69.5 billion in revenue for 2018-19. Just under half of the overall revenue, at $33.5 billion or 48 per cent is expected to come from grants, mainly from the Commonwealth. After grants, state taxation revenue is expected to raise $24.1 billion, or 34.7 per cent of the total.

2.3 Grant revenue for 2018-19

Grant revenue is divided into the following categories:

- *general purpose grants*, or goods and services tax (GST) revenue, which is collected at the Commonwealth level.
- *grants for specific purposes*, which are grants from the Commonwealth to the State to fund specific policy or program initiatives. This budget year there are a series of major NPAs between Victoria and the Commonwealth that have either expired or are about to expire. Negotiations on the future of these arrangements are still underway. This is discussed in greater detail later in the chapter.
- *specific purpose grants for on-passing*, which are grants received by the State from the Commonwealth that are immediately passed on to other entities or sectors such as local government. This year, this is largely comprised of the *Quality Schools Funding* grant, which provides support for services in the non-government schools sector.[9]
- *other contributions and grants*, which this year will include payments made by the Transport Accident Commission (TAC) to the general government sector.[10]

Figure 2.2 Sources of grant revenue, 2018-19 to 2021-22



Source: Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.22

9 The funding is part of the Commonwealth's *Quality Schools* package, implemented from 2018. Funding through the package is based on the Schooling Resource Standard (SRS)—a key recommendation of the 2011 Review of Funding for Schooling. Commonwealth Department of Education and Training, *What is the Quality Schools package and what does it mean for my school?* <https://www.education.gov.au/quality-schools-package-factsheet>, viewed 9 July 2018

10 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.21

2.3.1 General purpose grants, or goods and services tax revenue

Half of all the expected grant revenue for 2018-19 ($16.9 billion or 50.3 per cent) will be general purpose grants, or Victoria's share of GST revenue collected by the Commonwealth. The level of GST states receive from the Commonwealth is determined by the Commonwealth Grants Commission and calculated through 'relativities' apportioned to the jurisdictions. Victoria's accelerated population growth over recent years has seen the State's relativity of general purpose grants increase. The Department of Treasury and Finance informed the Committee:

> The Commonwealth Grants Commission's report, released on 5 April 2018, recommended Victoria's assessed relativity for 2018-19 should increase to 0.99 (from 0.93 in 2017-18). The increase is largely due to strong population growth, and the related need for greater investment in infrastructure, and a continued smaller share of Commonwealth grants. As a result, Victoria's share of the GST pool increased from 24.0 per cent in 2017-18 to 25.6 per cent in 2018-19.[11]

FINDING 2: The proportion of goods and services tax revenue received by Victoria will increase in 2018-19. The increase has been driven by an increase in the State's relativity level, reflecting the State's recent strong population growth.

Impact of proposed changes by the Commonwealth to goods and services tax distribution

Although the increase in the assessed relativity should see Victoria's share of GST revenue increase, the Department of Treasury and Finance informed the Committee in its response to the Committee's general questionnaire of possible future changes to the way GST revenue is distributed amongst the states. The Productivity Commission's *Inquiry into Horizontal Fiscal Equalisation* was completed in early 2018. This inquiry examined the current federal and state taxation systems, examining alternatives to the present arrangements in place between the jurisdictions.[12] The Department of Treasury and Finance noted that the Productivity Commission's final report has now been handed to the Commonwealth Government and:

> The Commonwealth's response to the inquiry may have implications for how GST revenue is distributed to the states and territories. For example, under one approach proposed by the Productivity Commission, it is estimated that Victoria's GST payments would have reduced by $972 million in 2017-18, with an ongoing impact in future years.[13]

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11 Department of Treasury and Finance, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 9 May 2018, p.21

12 Productivity Commission, *Guidance note for the Inquiry into Horizontal Fiscal Equalisation* (2017), p.1. Available at <https://www.pc.gov.au/inquiries/completed/horizontal-fiscal-equalisation#report>, viewed 4 July 2018

13 Department of Treasury and Finance, *Budget Paper No.2: 2018-19 Strategy and Outlook* (2018), p.61

On 5 July 2018 the Federal Treasurer announced the Commonwealth's response to the Productivity Commission's report. The Commonwealth has proposed an alternate system of changes to the horizontal fiscal equalisation (HFE) than that originally outlined by the Productivity Commission in its report. Under the Commonwealth's proposed changes:

- the transition to a new HFE system would start in 2019-20 and be fully implemented by 2024-25
- a 'floor' of 70 cents per person, per dollar of GST would be the 'relativity' under which no state could fall from 2022-23 and this is to rise to 75 cents in 2024-25. The Commonwealth would provide an extra $600 million funding over this time to ensure no state receives less than the 70 cents per person, as well as an extra $250 million in 2024-25 to cover the rise to 75 cents per person.[14]

The Federal Treasurer stated:

> Our preferred model involves moving to a new benchmark that will ensure the fiscal capacity of all States and Territories is at least the equal of NSW or Victoria (whichever is higher). Benchmarking all States and Territories to the economies of the two largest states will remove the effects of extreme circumstances, like the mining boom, from Australia's GST distribution system.[15]

FINDING 3: The Commonwealth Government's proposed changes to horizontal fiscal equalisation will change how future goods and services tax revenue is distributed to the States and Territories.

2.3.2 Other grants

Grants for specific purposes

In 2018-19 grants for specific purposes are expected to be $11.8 billion.[16] There are a number of substantial NPAs between the Commonwealth and the Victorian Government that are due to be finalised over 2018 and 2019.

In the education portfolio, the Committee was informed that 'there is ongoing uncertainty about the future of Commonwealth funding'. Arrangements across various education sectors have either expiring agreements or agreements that are still being negotiated.[17]

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14 The Hon Scott Morrison MP, Treasurer (Commonwealth), *All better off from fairer way to share the GST*, (Media release, 5 July 2018)

15 ibid.

16 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.22

17 Department of Education and Training, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 8 May 2018, p.27

In terms of early childhood education, the Department of Education and Training informed the Committee:

> ... funding under the current *National Partnership on the National Quality Agenda for Early Childhood Education and Care* ends in December 2018. The Commonwealth has not committed to a new *National Partnership on the National Quality Agenda*. The *National Partnership on Universal Access to Early Childhood Education* ends in December 2019. The Commonwealth Government had not committed further funding for Universal Access beyond 2019 at the time of the State Budget.[18]

The Minister for Early Childhood Education told the Committee at the public hearings:

> We have had national partnership agreements since 2009, with the states, territories and commonwealth being in partnership to drive up quality. As a result we have seen improved quality in our services here in Victoria.[19]

In the school education sector, negotiations on the Commonwealth-State school funding arrangement commonly referred to as 'Gonski 2.0' have yet to be finalised. To that end, the Department informed the Committee:

> ... Victoria and the Commonwealth signed an interim school funding agreement for 2018. This was effectively a roll-over of the 2017 arrangements.
>
> Victoria is currently negotiating new school funding agreements with the Commonwealth.
>
> It is expected that 2019 will be the first year of a new school funding agreement with the Commonwealth. This Budget provides to the Department an additional $1.55 billion in funding for Victorian schools. This funding will contribute towards Victoria achieving expenditure targets for 2019.
>
> Negotiations with the Commonwealth are continuing. Any commitments for school funding for future years arising from these negotiations will be announced in future budgets.[20]

Some of the outputs in the Budget that have single year funding include the *Camps, Sports and Excursions Fund*, *Music in Schools* and *Teach for Australia*.[21] The Minister for Education explained that the uncertainty regarding funding arrangements with the Commonwealth has affected program budgeting over the forward estimates. The Minister informed the Committee at the inquiry hearings:

> You will probably see a few programs that are for a single year's funding [in this year's budget papers]. The reason for that is that we have got the most significant national negotiations taking place as we speak in regards to a new national funding agreement, so we will be negotiating that. Negotiations have already started. I am hopeful that we can conclude those negotiations by July/August because we need

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18 ibid.

19 Hon Jenny Mikakos MP, Minister for Early Childhood Education, *2018-19 Budget Estimates Transcript of Evidence*, 31 May 2018, p.5

20 Department of Education and Training, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 8 May 2018, p.27

21 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), pp.40-1

> to provide schools with their indicative SRP [Schools Resource Package] budgets in September and indicate to non-government schools their funding in October. We just do not know how big the pie is going to be.[22]

In the vocational education and training (VET) sector the Committee was told of ongoing negotiations regarding the skills funding arrangement announced in the 2017-18 Commonwealth Budget:

> The (former) *National Partnership Agreement on Skills Reform* expired in 2016-17 and provided $434.8 million to Victoria over 5 years ($127 million in 2016-17). As part of the 2017-18 Budget, the Commonwealth announced the establishment of the *Skilling Australia Fund*, which is to be overseen by a National Partnership Agreement. Commonwealth government and State and Territory governments are currently in the process of negotiating on this agreement.[23]

FINDING 4: Education grants from the Commonwealth Government to Victoria for early childhood education, schools funding and skills development have yet to be finalised creating funding uncertainty in the Education portfolio.

The Department of Health and Human Services informed the Committee of the replacement of two large scale NPAs with the *National Housing and Homelessness Agreement* (NHHA). The Department told the Committee:

> In the 2017 Commonwealth Budget the Commonwealth Government announced that from 2018-19 onwards the *National Partnership Agreement on Homelessness* (NPAH) and the *National Affordable Housing Specific Purpose Payment* (NAH SPP) would be replaced by a proposed *National Housing and Homelessness Agreement* (NHHA). Legislation was passed by the Australian Parliament in March 2018 that removed the NAH SPP and required Victoria to agree to the NHHA in order for housing and homelessness funding previously provided under the NAH SPP and the NPAH to continue to be provided to Victoria. This legislation also stipulates that Victoria must match a level of Commonwealth funding specified for homelessness in order to receive NHHA funding. Victoria is currently negotiating the terms of the agreement with the Commonwealth.[24]

At the public hearings the Minister for Housing, Disability and Ageing made the following comments regarding the status of NHHA negotiations:

> The program for the rough sleeping response also includes almost $24 million to, we hope, match the commonwealth contribution under the proposed national housing and homelessness agreement. I stress 'we hope' because as we sit here with less than three weeks to go until the existing affordable housing agreement and the homelessness agreement which have been in place since 2009 expire, no state has finalised that agreement with the commonwealth.[25]

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22 Hon James Merlino MP, Minister for Education, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, p.15

23 Department of Education and Training, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 8 May 2018, p.27

24 Department of Health and Human Services, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 15 May 2018, pp.25-6

25 Hon Martin Foley MP, Minister for Housing, Disability and Ageing, *2018-19 Budget Estimates Transcript of Evidence*, 12 June 2018, p.3

Another NPA related to housing for young people leaving out-of-home care, the *National Partnership on the Transition to Independent Living Allowance,* is also being re-negotiated.[26]

Programs related to housing and homelessness are discussed further in Chapter 4 on output expenditure.

FINDING 5: The two large scale National Partnership Agreements relating to housing and homelessness are proposed to be replaced with the *National Housing and Homelessness Agreement*, although no state has yet signed this agreement with the Commonwealth.

The Department of Health and Human Services also listed a number of other health sector related agreements currently under negotiation in their general questionnaire response. These include:

- the *National Partnership on Suicide Prevention Hotspots*
- the *National Partnership on Encouraging More Clinical Trials in Australia*
- the *National Partnership for Victorian Cytology Service*
- the *National Partnership on Expansion of the BreastScreen Australia Programme*
- the *National Partnership on the National Bowel Cancer Screening Programme—Participant Follow-up Function*.[27]

Specific purpose grants for on-passing

Specific purpose grants for on-passing are estimated to be $4.0 billion over 2018-19. The budget papers indicate for 2018-19 most of this funding ($3.4 billion) relates to the *Quality Schools Funding* arrangement for non-Government schools.[28]

Other contributions and grants

Other contributions and grants are expected to raise $733 million in 2018-19 and $2.1 billion over the remainder of the forward estimates period.[29] This line item includes, amounts equivalent to dividends, paid by the TAC.[30] Payments to the State made by public financial corporation (PFC) entity, TAC, have previously been reported under dividends, however due to accumulated losses on the entity's balance sheet over recent years, such payments cannot be classified as dividends under *AASB 1023 General Insurance Contracts*.[31] As part of last year's inquiry the Victorian Auditor-General further explained to the Committee that:

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26 Department of Health and Human Services, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 15 May 2018, p.26

27 ibid., pp.25-6

28 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.155

29 ibid., p.22

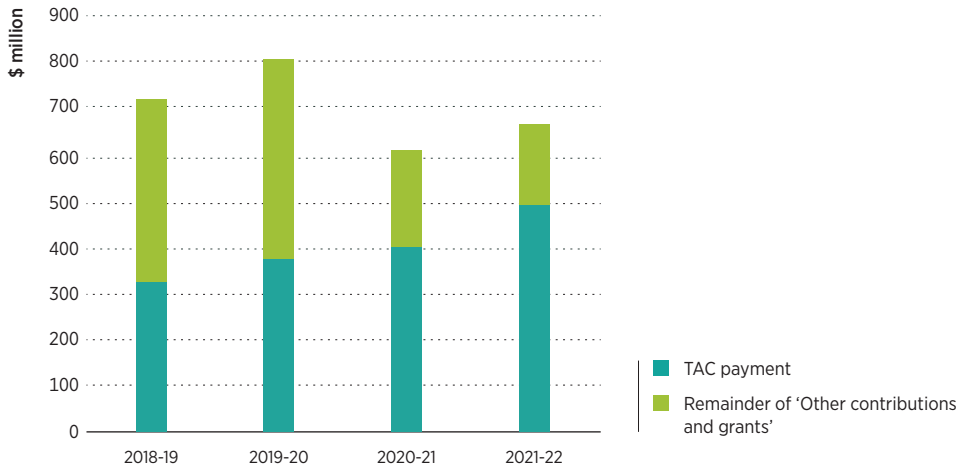
30 ibid., p.21

31 Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), p.66

The main purposes of the accounting standard AASB 1023 General Insurance Contracts are to specify the manner of accounting for general insurance contracts and certain aspects of accounting for the assets backing general insurance liabilities. It is relevant in the context of this issue only to the extent that it determines how the annual accounting profit is determined, from which a dividend can be paid.[32]

Figure 2.3 displays how much of the budgeted other contributions and grants line item is made up of the TAC payments. The TAC payment component makes up 45 per cent of other contributions and grants for 2018-19, increasing to 74 per cent by the end of the forward estimates period in 2021-22. The breakdown of the remainder of other contributions and grants by source is not further disclosed in the budget papers.

Figure 2.3 Other contributions and grants, 2018-19 to 2021-22



Source: Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), pp.21-2

FINDING 6: The amounts equivalent to dividends made by the Transport Accident Commission comprise 45 per cent of the $733 million other contributions and grant line item for 2018-19. The Transport Accident Commission payment proportion of the other contributions and grant line item increases to 74 per cent by the end of the forward estimates period in 2021-22.

2.4 State based taxation for 2018-19

State based taxation revenue is expected to be $24.1 billion in 2018-19, increasing by an average annual growth rate of 4.5 per cent over the forward estimates period to reach $27.5 billion by 2021-22.[33]

The estimates for 2018-19 across the various State taxation streams are shown in Figure 2.4. They are:

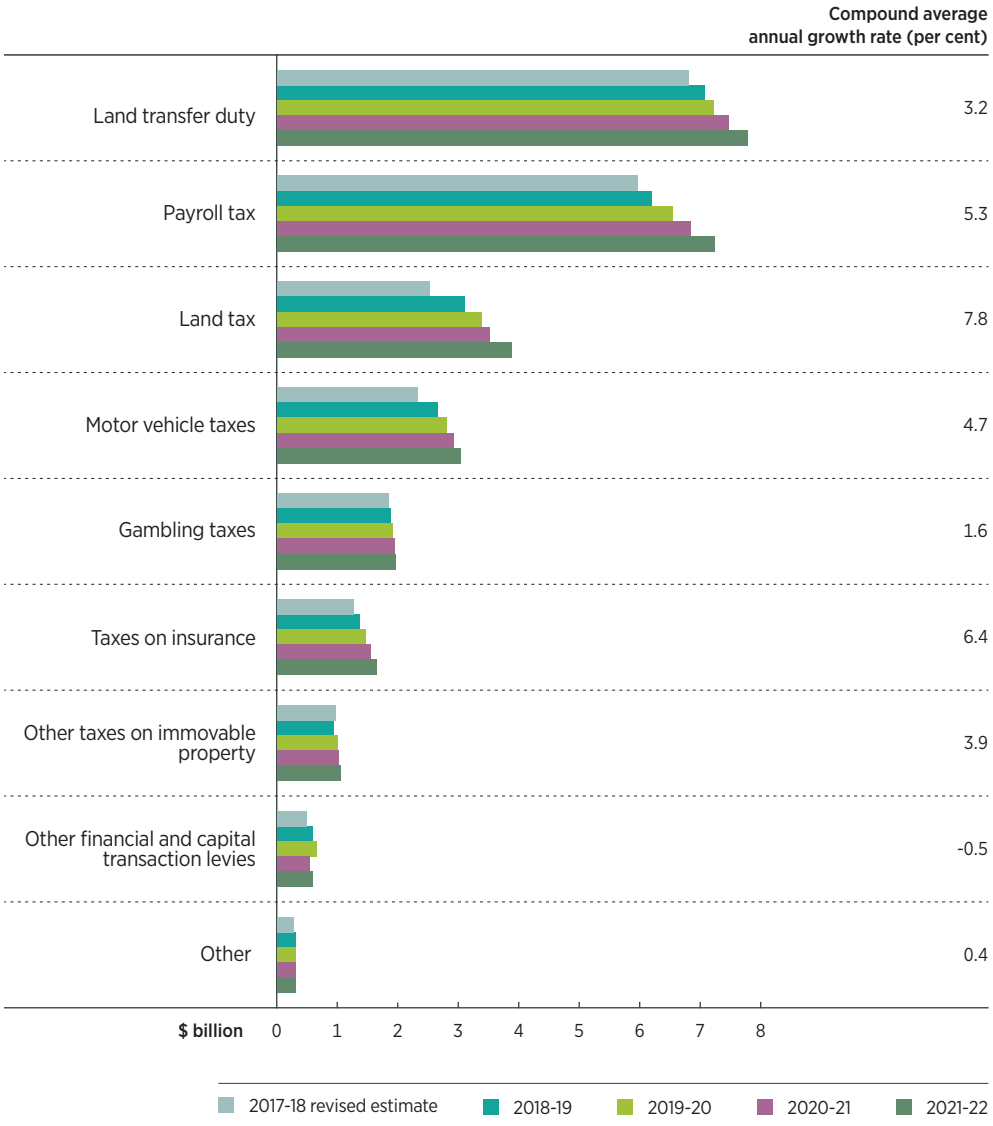
- taxes related to property, such as land tax and land transfer duty

32 ibid., Appendix 2, p.266

33 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.19

- payroll tax, which is a levy based on employer payrolls once they reach a certain threshold
- motor vehicle taxes, which includes vehicle registration fees and duties on vehicle registrations and transfers
- gambling taxes, which are comprised of revenue from public lotteries, public gaming machines, the Crown Casino and racing
- taxes on insurance
- other taxes on immovable property, which includes the fire property services levy, the congestion levy and the metropolitan improvement levy
- other financial and capital transaction levies, which includes the metropolitan planning levy, the financial accommodation levy and the growth area infrastructure contribution (GAIC)
- other taxes.

Figure 2.4 Estimated State taxation by revenue stream, 2017-18 to 2021-22



Source: Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), pp.19, 142

2.4.1 Property related taxes

Land transfer duty

Land transfer duty accounts for just under 30 per cent (29.4 per cent) of all State based taxation and is expected to raise $7.1 billion in 2018-19.[34] Growth in the level of land transfer duty reflects the performance of the Victorian property market. The expected average annual growth rate for 2018-19 and across the forward estimates of 3.2 per cent is subdued compared to the actual annual growth rates reached in recent years.[35]

The Department of Treasury and Finance notes in the budget papers that there are signs property prices in the Victorian residential market are moderating, and property data recently released by the Australian Bureau of Statistics (ABS) showed Melbourne's residential property prices fell 1.6 per cent between the December 2017 and March 2018 quarters.[36]

The Department also forecasts interest rates will gradually increase from 2019 and over the forward estimates period, 'dampening the strength of any recovery in housing transaction volumes or prices'.[37] Other reports have also noted the impact of increasingly tighter bank lending standards on home loans resulting from the current Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.[38]

FINDING 7: Land transfer duty is expected to raise $7.1 billion in 2018-19 and grow at an average annual rate of 3.2 per cent over the forward estimates period, a slower rate than in recent years. This reflects an anticipated slowdown in the property market, driven by forecast increases in interest rates and further tightening of bank lending conditions.

Land tax

Land tax revenue for 2018-19 is expected to be $3.1 billion for 2018-19 and increase by an average growth rate of 7.8 per cent over the forward estimates period to reach $3.9 billion by 2021-22. This year is the final year of biennial property valuations for land tax, and covers the period 1 January 2016 to 31 December 2017.

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34 ibid., p.142

35 In 2016-17 land transfer duty increased by 6.0 per cent over the previous year and in 2015-16 it increased by 4.5 per cent over the previous year (Department of Treasury and Finance, *Taxation revenue—annual historical series* (2017)).

36 Australian Bureau of Statistics *Cat. No.6416.0. - Residential Property Price Indexes: Eight Capital Cities*, March 2018. Available at <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6416.0>, viewed 29 June 2018; Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.146

37 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.146

38 ANZ Research, *Tighter Times in Property*, 18 June 2018. Available at <https://www.bluenotes.anz.com/posts/2018/06/tighter-times-in-property->, viewed 19 June 2018; CoreLogic, *Australian Dwelling Values Continue to Trend Lower in June Amidst Tight Credit Conditions and Less Investment Activity*, 2 July 2018. Available at <www.corelogic.com.au/news/australian-dwelling-values-continue-trend-lower-june-amidst-tight-credit-conditions-and-less>, viewed 15 August 2018

From 1 July 2018 the Victorian Valuer-General will undertake annual valuations and it is expected this will reduce 'volatility' in land tax revenue estimates in the future.[39]

Other taxes on immovable property

In addition to land tax, the Department of Treasury and Finance classifies the fire services property levy, the congestion levy and the metropolitan improvement levy as taxes on immovable property.'[40]

The fire services property levy is a charge placed on property owners raising revenue for fire services support including equipment, training and education programs.[41] The Government has decided to cap the levy at $662 million for 2017-18 and 2018-19. While the budget papers indicate the levy will increase over the forward estimates to $738 million by 2021-22, this forecast is in line with the provisions of the *Fire Services Property Levy Act 2012* (Vic). The Treasurer will further determine the rate for 2019-20 in May 2019.[42]

The congestion levy is placed on off street public and private car parking places in central and inner metropolitan Melbourne and aims to encourage public transport use and reduce traffic congestion. The levy is expected to raise $122 million in 2018-19 and increase slightly (1.5 per cent average annual growth) over the forward estimates period to $127 million by 2021-22. A recent study has found that there is an oversupply of off street private residential car parking spaces in Melbourne's inner city. Following this, the City of Melbourne may change how it uses these spaces in an effort to reduce on street parking in the central city area.[43]

The metropolitan improvement levy is also known as the metropolitan parks charge. It is collected via residential and commercial water bills and calculated on the net annual value of a property. Funds raised through the charge go towards 'Parks Victoria, Zoos Victoria, the Royal Botanic Gardens and the Shrine of Remembrance for the development, management and maintenance of metropolitan parks, gardens, trails, waterways, and zoos.'[44]

For 2018-19, the metropolitan improvement levy is expected to raise $169 million, and increase by 2.5 per cent over the forward estimates period, reaching $182 million in 2021-21.[45]

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39 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.141

40 ibid., p.142

41 ibid., p.149

42 ibid., p.142

43 Taylor, E and Van Bemmel-Misrachi R, *The Elephant in the Scheme: Planning for and Around Car Parking in Melbourne, 1929-2016* (2017), Land Use Policy, vol. 60, no. 2017, pp.287-97

44 Parks Victoria, *Who we are* <https://www.parkweb.vic.gov.au/about-us/who-we-are/how-were-funded>, viewed 14 June 2018

45 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.142

2.4.2 Payroll tax

Payroll tax is expected to raise $6.2 billion in 2018-19 and increase by 5.3 per cent per year over the forward estimates period to reach $7.2 billion by 2021-22.[46]

The tax-free threshold for payroll tax will increase from $625,000 to $650,000 in 2018-19. The levy rate on businesses with payrolls in excess of $650,000 is 4.85 per cent for those based in metropolitan Melbourne and 2.425 per cent for regional Victorian businesses.[47] The regional payroll tax rate of 2.425 per cent was announced as part of the 2018-19 Budget, decreasing from the 3.65 per cent regional payroll tax rate announced in the 2017-18 Budget.[48]

At the public hearings the Treasurer informed the Committee that the increase in the tax-free threshold will affect 38,000 businesses.[49] The reduction in the payroll tax rate for regional businesses is expected to cost $77 million in foregone revenue for 2018-19 and $256 million for the remainder of the forward estimates period.[50]

Growth in payroll tax reflects increases in both the number of people employed as well as salary levels. In this year's Budget, Victorian employment is forecast to grow by 2.0 per cent in 2018-19, and 1.75 per cent across the remainder of the forward estimates. This is below the 2016-17 growth rate of 3.9 per cent and the revised growth rate for 2017-18 of 2.75 per cent.[51] There has been weak wage growth in recent years at the state and national levels. The budget papers forecast a gradual return to the trend level of 3.25 per cent wage growth by the end of the budget estimates in 2021-22.[52]

At the public hearings the Treasurer was asked how the reductions and exemptions in payroll tax, together with a forecast economic environment outlined in the budget papers of modest wage rises and falls in the level of employment growth, can be reconciled with the Government's expectation of a payroll tax growth rate of 5.3 per cent.[53] In contrast to the explanation contained in the Budget Papers the Treasurer provided the following response:

> ... the forecast for payroll tax revenue growth is underpinned by an expected continuation of strong labour market conditions, continued above trend employment growth and an acceleration of growth in Victorian wages across the outlook.[54]

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46 ibid.

47 ibid., p.150

48 ibid.; Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.155

49 Hon Tim Pallas MP, Treasurer, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.3

50 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.165

51 Department of Treasury and Finance, *Budget Paper No.2: 2018-19 Strategy and Outlook* (2018), p.17

52 ibid.

53 Hon Sue Pennicuik MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.23

54 Hon Tim Pallas MP, Treasurer, *Response to the Committee's 2018-19 Budget Estimates Questions on Notice,* received 9 May 2018

2.4.3 Other financial and capital transactions

In addition to land transfer duty, the Department of Treasury and Finance classifies three other revenue streams as financial and capital transactions. These are:

- the metropolitan planning levy
- the growth areas infrastructure contribution
- the financial accommodation levy.[55]

The metropolitan planning levy applies to development permit applications within Melbourne's urban growth boundary and is intended to fund the Victorian Planning Authority and implementation of the metropolitan strategy *Plan Melbourne*.[56] The levy is expected to raise $26 million over 2018-19 and 2019-20, $27 million in 2020-21 and $28 million by 2021-22.[57]

The GAIC is a one-off levy imposed on certain events associated with urban property development such as subdivision and building applications for large blocks of land. It is generally paid by land developers and is only applied to land in Melbourne's growth local government areas (LGAs) of Cardinia, Casey, Hume, Melton, Mitchell, Whittlesea and Wyndham.[58] Output initiatives related to the Planning and Suburban Development portfolios in this year's budget such as the *Growing Suburbs Fund* are funded through the GAIC.[59]

The GAIC is expected to raise $238 million in 2018-19 and increase by 12.1 per cent a year over the forward estimates which is the highest growth rate of all the state taxation streams listed in Budget Paper No.5. It is expected to reach $335 million by 2021-22.[60] The high growth rate reflects the increased level of residential housing development currently underway across the growth LGAs that attract the GAIC. The latest report from the Urban Development Program regarding broadhectare lots noted there was record level construction in Melbourne's growth areas in 2017.[61]

The financial accommodation levy (FAL) is paid by government business enterprises (GBEs) to the Treasury Corporation of Victoria. In 2018-19, it is expected to raise $174 million and increase by an annual average of 8.8 per cent

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55 'Financial and capital transactions have been reclassified from "taxes on property" to "taxes on the provision of goods and services" as per the classification required under the new 2015 ABS GFS manual. This has been implemented for the first time in the 2018-19 Budget'. (Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.142)

56 State Revenue Office, *Metropolitan Planning Levy* <https://www.sro.vic.gov.au/metropolitan-planning-levy>, viewed 14 June 2018

57 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.142

58 State Revenue Office, *Growth Areas Infrastructure Contribution* <https://www.sro.vic.gov.au/growth-areas-infrastructure-contribution>, viewed 22 June 2018

59 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), pp.59, 65

60 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.142

61 Department of Environment, Land, Water and Planning, *Urban Development Program - Metropolitan Melbourne Broadhectare 2017* (2018), p.1

across the forward estimates to reach $224 million by 2021-22.[62] The FAL is intended to account for the difference between commercial interest rates and rates accessible by GBEs.

2.4.4 Environmental contribution levy

The environmental contribution levy (ECL) is listed as levies on statutory [water] corporations in the budget papers and is expected to raise $157 million in 2018-19 and 2019-20.[63] The budget papers note that these figures are the fourth tranche of ECL which commenced in 2016. The ECL is due to expire on 30 June 2020.[64]

2.4.5 Gambling taxes

Gambling taxes are expected to raise $1.9 billion in 2018-19 and increase 1.6 per cent over the forward estimates to reach $2.0 billion by 2021-22.[65] Gambling tax revenue comprises taxes from:

- electronic gaming machines (EGMs)
- gaming activity within the Crown Casino
- the racing industry
- public lotteries.

Electronic gaming machine revenue

Most of the overall gambling tax revenue is expected to come from EGM revenue, estimated to be $1.1 billion in 2018-19 or 59.6 per cent of the gambling tax total.[66] EGM revenue is expected to increase by 1.8 per cent over the forward estimates.

When questioned at the public hearings by a Committee member on the location of gaming machines, the magnitude of revenue raised and problem gambling,[67] the Treasurer noted:

> It [the Budget] forecasts revenue of 1.9 billion [of gambling taxes], so close to 2 billion, in 18–19. The increase is by an average of 1.6 per cent a year over the forward estimates. So in practical terms that is actually substantively below the revenue growth the state is getting overall, which is coming in at 4.5 per cent. So yes, it is increasing, but it is increasing at a lesser level than the general background revenue intakes of the state.[68]

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62 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.142

63 ibid.

64 ibid.

65 ibid.

66 ibid.

67 Hon Fiona Patten MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.17

68 Hon Tim Pallas MP, Treasurer, *2018-19 Budget Estimates Transcript of Evidence,* 15 May 2018, p.17

The Minister for Consumer Affairs, Gaming and Liquor Regulation provided further insight into the budget estimates for EGM revenue in a response to a question taken on notice:

> EGM player loss as a share of total consumption expenditure has been consistently declining over recent years. Over the last two Budget cycles, Department of Treasury and Finance has gradually downgraded forecasts to account for this, and revised its forecasting methodology to better reflect the current market.
>
> EGM revenue collections to date are broadly in line with 2017-18 Budget Update and 2018-19 Budget forecasts, suggesting that the current methodology is accurately reflecting the state of the market.[69]

At the public hearing the Minister for Consumer Affairs, Gaming and Liquor Regulation told the Committee that Victoria has the lowest density of gaming machines per head of population out of all the jurisdictions, except for Western Australia:

> The 2016–17 figures show that there were 5.47 gaming machines per 1000 adults in Victoria. This is a significant drop from 1999-2000, when gaming machine density was 7.76 per 1000 adults. This is also a great contrast to the density of gaming machines in most other jurisdictions. For example, in New South Wales the density is 15.6 machines per 1000 adults, with 15.1 machines per 1000 adults in the ACT [Australian Capital Territory], 11.6 machines in Queensland and 9.2 in South Australia.[70]

The Committee was also informed of recent reforms implemented to address problem gambling through EGM use by the Minister:

> ... Victoria [is] now the only mainland state without ATMs at gaming venues; we also became the only mainland state with a daily limit on EFTPOS withdrawals; and once the legislated $500 daily limit on EFTPOS comes into effect on 19 September this year.[71]

FINDING 8: Revenue growth rates for overall gambling taxes (1.6 per cent) and electronic gaming machines (1.8 per cent) are less than the overall revenue growth rate (4.5 per cent), reflecting the decline in electronic gaming machine use in recent years.

Casino revenue

The Minister told the Committee that the '... cap on the number of gaming machines in the State until 2042 will ensure that the density of gaming machines will continue to decline as our population increases'.[72] However the Committee was advised at the public hearings that the gaming machines at the Crown

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69 Hon Marlene Kairouz MP, Minister for Consumer Affairs, Gaming and Liquor Regulation, *Response to the Committee's 2018-19 Budget Estimates Questions on Notice*, received 28 June 2018

70 Hon Marlene Kairouz MP, Minister for Consumer Affairs, Gaming and Liquor Regulation, *2018-19 Budget Estimates Transcript of Evidence*, 13 May 2018, p.4

71 ibid.

72 ibid.

Casino are 'not subject to some of the harm minimisation requirements that apply to other machines' such as the maximum bet levels and speed at which the machines spin.[73]

The Committee also notes that EGM revenue from machines located in the Crown Casino fall under the 'Casino' line item in the budget papers, together with tax and license revenue from other gambling products such as table games under the Casino licence. Casino revenue is expected to be $237 million for 2018-19, and increase by an average of 3.1 per cent over the forward estimates to reach $260 million by 2021-22.[74]

FINDING 9: While the Government's cap on gaming machines in combination with population growth has effectively reduced the density of electronic gaming machines per person, harm minimisation measures such as maximum bet levels and spin speed do not apply to machines within the Crown Casino.

FINDING 10: Revenue from Crown Casino over the forward estimates is expected to grow at an average annual rate of 3.1 per cent higher than the rate for electronic gaming machines (1.8 per cent) and for gambling taxes overall (1.6 per cent).

Racing revenue and the levy on online bookmakers

Revenue from gambling activity in the racing industry is expected to be $70 million in 2018-19 and fall by 5.5 per cent a year to be $59 million by 2021-22.[75]

On 14 May 2018, the Government announced its intention to levy an eight per cent tax on online bookmakers' monthly winnings starting from 1 January 2019.[76] It is anticipated the levy will raise $30 million a year and 1.5 per cent of taxable net wagering revenue will be returned to the Victorian racing industry.[77] The Victorian rate of eight per cent is less than the South and Western Australian rate of 15 per cent, which other jurisdictions had agreed to implement.

When the Minister for Consumer Affairs, Gaming and Liquor Regulation was asked about the lower rate for Victoria in comparison to other states at the public hearings, she informed the Committee that:

> Any wagering tax reforms need to fully consider the impact on all stakeholders, including wagering service providers, racing and sporting codes, consumers and the wider community. Given that such an impact will vary by jurisdiction, the rate adopted by Victoria has considered our specific state environment and not the rate that has been announced or adopted by other jurisdictions.

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73 Ms Cate Carr, Executive Director, Liquor, Gaming and Racing, Department of Justice and Regulation, *2018-19 Budget Estimates Transcript of Evidence*, 13 May 2018, p.10

74 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.142

75 ibid.

76 Hon Tim Pallas MP, Treasurer, *Making Online Betting Companies Pay Their Fair Share* (Media release, 14 May 2018)

77 ibid; ABC News, *Victorian announces consumption tax for Online betting* <https://www.abc.net.au/news/2018-05-14/victoria-announces-consumption-tax-for-online-betting/9758116>, viewed 14 May 2018

> I am aware that some believe that we have gone too far and others believe that we have not gone far enough. However, I believe that this strikes the right balance between collecting our fair share from online bookmakers and protecting Victorian jobs and ensuring that our racing industry continues to thrive.[78]

FINDING 11: The Government intends to introduce an eight per cent levy on online bookmakers' monthly winnings starting from 1 January 2019. The Victorian rate of eight per cent is less than the South and Western Australian rate of 15 per cent.

Public lotteries

Revenue from public lotteries is expected to raise $418 million for 2018-19 and increase by an annual average of 0.6 per cent over the forward estimates to reach $426 million by 2018-19.[79] The lottery licence arrangement awarded to the Tatts group last year included a $120 million premium payment to be made on 1 July 2018.[80] The Committee was informed that this payment is included in the 'Lotteries' line of gambling tax revenue, amortised over the 10 year licence period. This means $12 million of licence revenue will be captured in this revenue line each year from 2018-19 until the end of the agreement in 2027-28.[81]

2.4.6 Other taxes

Motor vehicle fees and duties

Taxes related to motor vehicles are comprised of vehicle registration fees and duty on vehicle registrations and transfers. Vehicle registration fees are expected to raise $1.7 billion in 2018-19, and increase by an average annual rate of 5.4 per cent over the forward estimates to reach $2.0 billion by 2021-22.[82] Duty on vehicle registration and transfers is expected to raise $975 million for 2018-19 and increase at the slower rate of 3.6 per cent over the forward estimates, reaching $1.1 billion by 2021-22.[83]

The budget papers note that the current uncertainty regarding the heavy vehicle charge has made it difficult to effectively forecast motor vehicle tax revenue. The heavy vehicle charge is set by the Transport and Infrastructure Committee, comprised of all the state, territory and Commonwealth transport, infrastructure and planning ministers. A two year freeze on heavy motor vehicle charges was put in place in 2017-18, and the charge for 2019-20 and beyond has yet to be agreed.[84]

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78 Hon Marlene Kairouz MP, Minister for Consumer Affairs, Gaming and Liquor Regulation, *2018-19 Budget Estimates Transcript of Evidence*, 18 May 2018, p.13

79 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.19

80 Hon Marlene Kairouz MP, Minister for Consumer Affairs, Gaming and Liquor Regulation, *Tatts Awarded New Public Lotteries Licence* (Media release, 1 June 2017)

81 Hon Marlene Kairouz MP, Minister for Consumer Affairs, Gaming and Liquor Regulation, *Response to the Committee's 2018-19 Budget Estimates Questions on Notice*, received 28 June 2018

82 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.142

83 ibid., p.19

84 ibid., p.151

FINDING 12: The freeze on the heavy vehicle charge put in place in 2017-18 by the cross-jurisdictional Transport and Infrastructure Committee expired this financial year and the charge for 2019-20 and beyond has yet to be agreed. This has made it difficult to accurately forecast motor vehicle revenue across the forward estimates.

The Department of Treasury and Finance notes in the budget papers that the high level of population growth has driven increases in registration fee revenue, and this is expected to continue over the forward estimates period.[85] Other reports have also noted the tax write off of $20,000 available to small business owners on new cars had fuelled new car sales over the last two years.[86]

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry currently underway may also impact motor vehicle sales and transfers into the future, and following this, the amount of revenue generated. The Royal Commission has established that 90 per cent of all car sales are arranged through finance and of these 39 per cent are financed through dealerships.[87] Profits made in car sales at dealerships often lie in ancillary services, such as on-going servicing arrangements, together with finance and insurance deals, rather than the price of the new car itself, and 'the offer of finance as an "after-sales" purchase is often a key part of the sales process'.[88] Thus any changes to the regulatory regime for car finance may change the price or volume of car sales and transfers into the future, and this may impact on the amount of revenue raised.

Insurance taxes

Insurance taxes are comprised of duty paid on general insurance premiums, which includes household, motor vehicle and life insurance. For 2018-19, these are expected to raise $1.4 billion and increase by an average of 6.4 per cent to earn $1.6 billion by 2021-22.[89]

Once again, there is a possibility insurance premiums will increase as a result of the findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.[90] This may impact on future revenue levels.

FINDING 13: Any changes to the regulatory regime for car finance may change the price or volume of car sales and transfers into the future, and this may impact on the amount of revenue raised.

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85 ibid.

86 Australian Taxation Office, *Extending the immediate deductibility threshold for small business* <https://www.ato.gov.au/General/New-legislation/In-detail/Direct-taxes/Income-tax-for-businesses/Extending-the-immediate-deductibility-threshold-for-small-business/(2017), viewed 25 June 2018; *Savvy Car Loans, Is the June car frenzy a ruse?* <https://www.crikey.com.au>, viewed 22 June 2018

87 *Royal Commission into Misconduct in the Banking,* Superannuation and Financial Services Industry, *Background Paper 3: Some Features of Car Financing in Australia* (2018), p.3

88 ibid.

89 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.19

90 Alice Uribe, 'Banking royal commission could raise insurance premiums', *Australian Financial Review*, <https://www.afr.com/business/banking-and-finance/financial-services/questions-marks-over-royal-commission-insurance-costs-20180107-h0em6m>, viewed 4 September 2018

Landfill Levy

The landfill levy is a charge placed on local government councils and landfill operators for waste that is sent to landfill. The purpose of the levy is to 'create a disincentive to putting waste into landfill and to encourage resource recovery and recycling'.[91]

Revenue collected via the landfill levy is included in the other taxes line item. While estimates for the landfill levy are not published by the Department of Treasury and Finance in the budget papers, the Victorian Auditor General's Office (VAGO) recently released the *Managing the Municipal and Industrial Landfill Levy* report which contained estimates for landfill levy revenue for the 2018-19 Budget and over the forward estimates period. According to the VAGO report, the landfill levy is expected to raise $216 million in 2018-19, and increase very slightly over the forward estimates period to reach $218 million by 2021-22.[92]

The recent ban by China on imports of mixed recyclable material has seen local recycling companies warn that councils will have to pay more for kerbside rubbish collection, and that it is likely more waste will go to landfill.[93] The estimates for landfill levy revenue given in the recent VAGO report do not appear to take any significant increases in landfill waste, and following this increases in landfill levy revenue, into account.

Other taxes

Other taxes include landfill levies, licence fees and up-front concession fees paid by Transurban in respect of Melbourne CityLink.[94] Other taxes are expected to be $283 million for 2018-19 and increase slightly (0.6 per cent) over the forward estimates period to $286 million by 2021-22.[95]

2.5 Sales of goods and services

Sales of goods and services is expected to raise $7.5 billion in 2018-19, the bulk of which at $4.3 billion (57.6 per cent) is the provision of services line item.[96] In the budget papers the Department of Treasury and Finance has indicated growth in this revenue source has increased once again due to the impact of capital asset charge revenue from VicTrack in relation to an increase in its asset base, increases in TAFE revenue and increases in land registration fees.[97]

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91 Victorian Auditor-General's Office, *Managing the Municipal and Industrial Landfill Levy* (2018), p.21

92 ibid., p.23

93 Ian Mannix and Debbie Cuthbertson, 'Recycling on the brink of collapse in Victoria as China ban bites', *The Age*, 30 January 2018

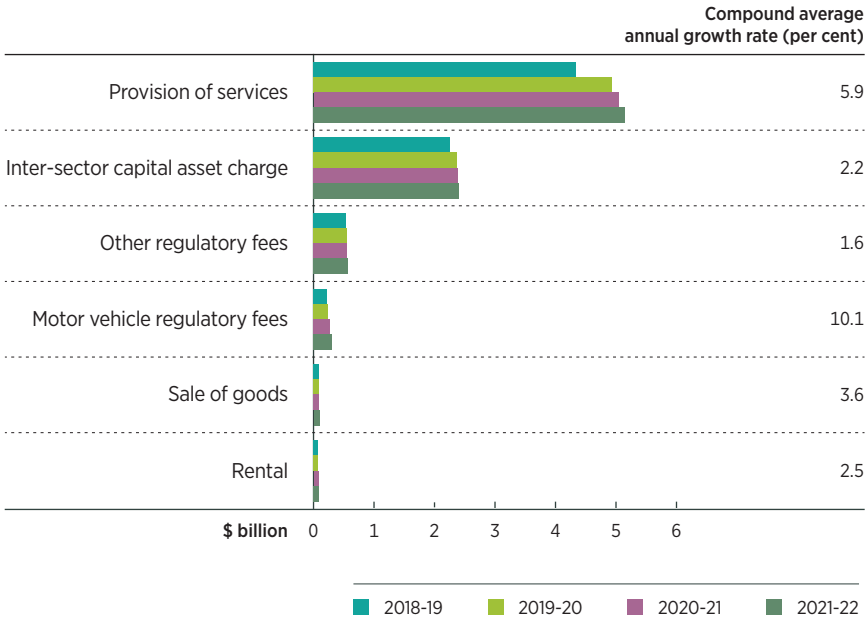
94 Department of Treasury and Finance, *State Taxation Revenue* (2018) <https://www.dtf.vic.gov.au/state-financial-data-sets/state-taxation-revenue>, viewed 13 June 2018

95 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.142

96 ibid., p.161

97 ibid.

Figure 2.5 Sales of goods and services, 2018-19 to 2021-22



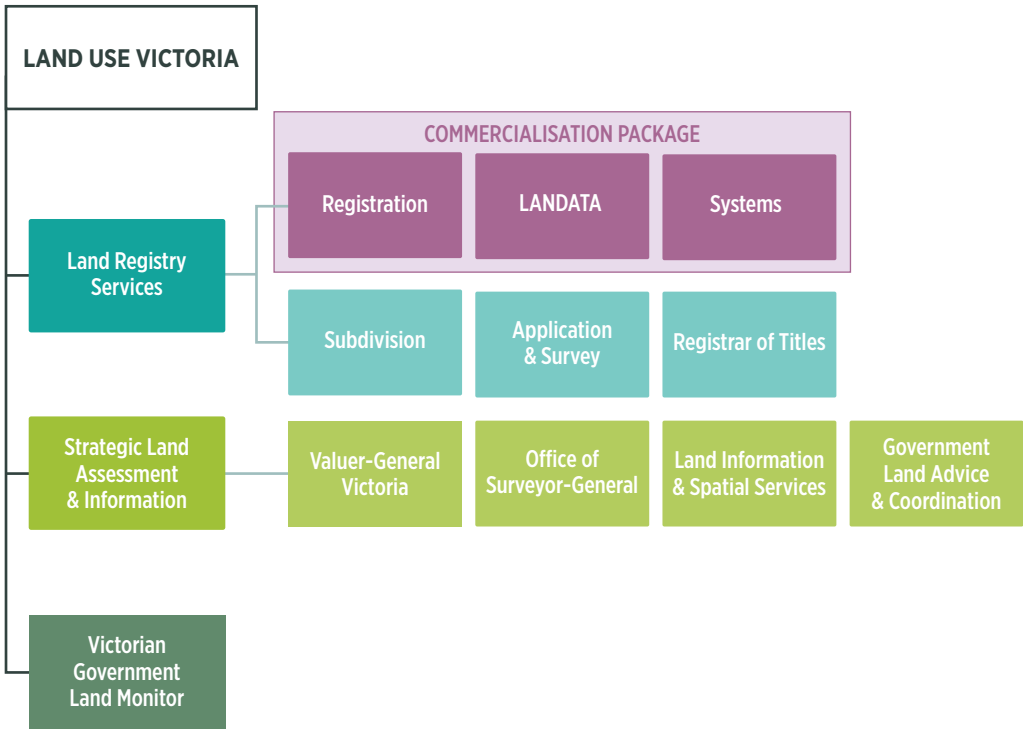
Source: Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.161

Revenue from land registration fees

In terms of land registration fees, the Government has stated in the budget papers that it was currently in the process of commercialising the land titles and registry functions of Land Use Victoria (LUV), the entity responsible for these functions that sits within the Department of Environment, Land, Water and Planning.[98] The commercialisation package of Land Registry Services is illustrated in Figure 2.6.

98 Department of Treasury and Finance, *Budget Paper No.2: 2018-19 Strategy and Outlook* (2018), p.6

Figure 2.6 Commercialisation component of Land Registry Services



Source: Mr David Martine, Secretary, Department of Treasury and Finance, *Inquiry into the proposed long term lease of land titles and registry functions of Land Use Victoria*, Presentation, 6 June 2018

The Government plans to use the *Asset Recycling Strategy* available from the Commonwealth Government for the proposed long term lease of the land titles and registry functions of LUV, following the similar asset recycling initiative undertaken in 2017-18 for the Port of Melbourne lease transaction. The Treasurer explained the rationale behind the 'commercialisation package' to the Committee in the following terms at the public hearing:

> ... this is not a privatisation in the context of a divestment of an asset. The state is leasing the asset, and it is not about ideology; it is about getting results. We have always said that we have looked carefully at the state's assets to make sure that we are getting the biggest possible value for taxpayers. The lease of the [P]ort of Melbourne I think shows that we have been able to extract considerable value in that exercise. We are now well into commercialising this [land title] service. Our expectation is that it will be complete before the end of year. Our priority is of course to deliver better value for taxpayer assets, ensuring that Victorians' rights are protected, so the proceeds will be reinvested in productive infrastructure.[99]

The Treasurer made assurances to the Committee that privacy and data protection, together with the customer service provided by LUV would not be compromised by the lease.[100] The Treasurer also told the Committee that existing arrangements regarding the setting of service fees and charges would

99 Hon Tim Pallas MP, Treasurer, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, pp.9-10

100 ibid., p.10

not change.[101] This means that the provision of services and sales of goods revenue currently paid by LUV will continue, and not be used as a revenue stream for the future private operator. As the Treasurer explained to the Committee:

> The LUV reported [in 2016-17] $412.5 million in administrative revenue, comprising about $382.7 million in land titles income and about [$]29.8 million in goods and services. In addition to the up front proceeds expected from the commercialisation, the state will retain the ad valorem revenue stream, which represents a significant portion of the LUV's current revenues. The state will also continue to receive revenues generated by the subdivision and applications and survey functions.[102]

During the public hearing the Treasurer was asked how the proposed LUV commercialisation process would be different to the consumer experience of similar land title office sales in other jurisdictions such as:

> ... in New South Wales, [where] fees went up by some 300 per cent. In the United States, landholders and mortgagees have been required to take out insurance against fraud et cetera with regard to their titles.[103]

The Treasurer responded:

> Just to give you an appreciation of how this is a substantially different exercise from what the other states have done, a number of essential services will remain in public hands, including subdivisions, applications and survey, Valuer General Victoria, surveyor general Victoria, land information and spatial services, government land advice and coordination, and the Victorian Government Land Monitor. So the government will retain ownership of all the registry data with all information accessed by the private sector subject to relevant privacy and data protection laws and regulation.
>
> In addition, of course, the state will continue its role of guaranteeing titles under the Transfer of Land Act, and the registrar of title will also remain under state control, retaining an oversight role over the private operator. The private operator, in our expectation, will be responsible for the commercialisation of land registry functions and transactions for a term of 40 years, after which responsibilities will be returned to public hands.[104]

FINDING 14: The Treasurer advised the Committee that the 40 year lease of the land titles and registry functions of Land Use Victoria will maintain the current provisions for privacy and data protection, customer service, government ownership of registry data and fees and charges paid into State revenue.

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101 ibid.

102 ibid., p.22

103 Hon Sue Pennicuik MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.9

104 Hon Tim Pallas MP, Treasurer, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.10

In the discussion on the merits of the LUV lease to Victoria, Mr David Webster, Deputy Secretary, Commercial, Department of Treasury and Finance, also told the Committee:

> I think one of the benefits that we are looking to the private sector to bring is really innovation, particularly around the IT systems and the processing to make a more efficient end to end process for people.[105]

FINDING 15: The Government expects one of the benefits of leasing the land titles and registry operations of Land Use Victoria to a private operator will be greater efficiency through information technology innovation.

There is further discussion of the use of information technology capability within Victorian Government departments in the section on contractors and consultants in Chapter 4.

While the Treasurer would not be drawn on an exact figure the Government is expecting from the upfront concession licence fee for the 40 year lease in 2018-19, he told the Committee:

> ... we would expect a minimum of $1.5 billion or thereabouts for the proceeds. Look, I am optimistic, and sometimes my optimism is justified. Certainly the Port of Melbourne gave us cause for optimism. We may well do better than that on the upside.[106]

The Committee notes that on Monday 27 August 2018, the Treasurer announced that the Government granted a concession to Victorian Land Registry Services to operate the land titles and registry functions of LUV for $2.9 billion.[107]

FINDING 16: On Monday 27 August 2018, the Hon Tim Pallas MP announced a concession was granted to Victorian Land Registry Services to operate the land titles and registry functions of Land Use Victoria for $2.9 billion.

2.6 Other revenue

Other revenue, illustrated in Figure 2.7, includes fines, royalties, donations and gifts. For 2018-19 this is expected to raise $2.6 billion, increasing by a modest average growth rate of 1.6 per cent over the forward estimates to reach $2.7 billion by 2021-22.[108] The major sources of this item are 'other revenue—education' which includes fees, donations and voluntary payments within the education sector worth $643 million in 2018-19, and 'other miscellaneous revenue' worth

105 Mr David Webster, Deputy Secretary, Commercial, Department of Treasury and Finance, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.10

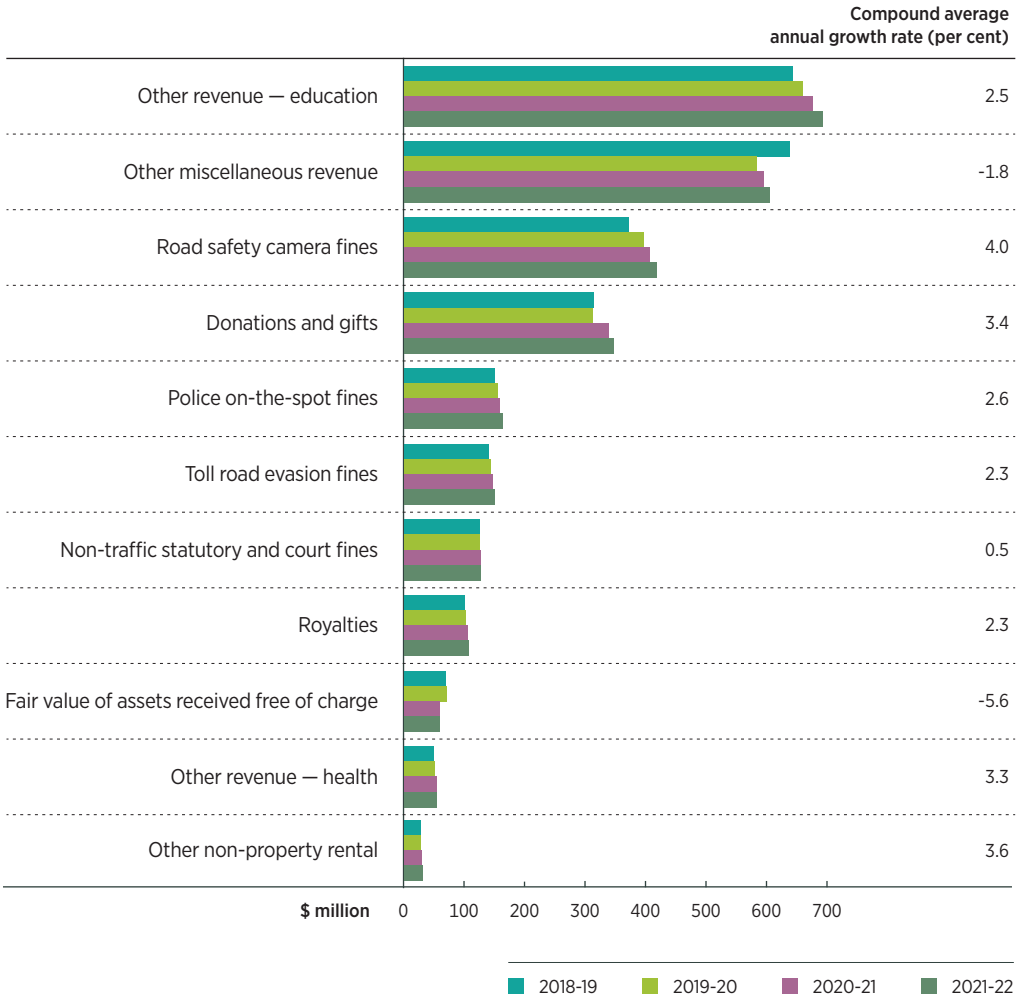
106 Hon Tim Pallas MP, Treasurer, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.23

107 Hon Tim Pallas MP, Treasurer, *Land Use Victoria Proceeds Deliver Infrastructure Boost* (Media release, 27 August 2018)

108 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.162

$637 million in 2018-19.[109] Road safety fines follows at $371 million for 2018-19 and is expected to grow at the highest rate of all other revenue sources listed in the budget papers at 4.0 per cent per annum.[110]

Figure 2.7 **Other revenue, 2018-19 to 2021-22**



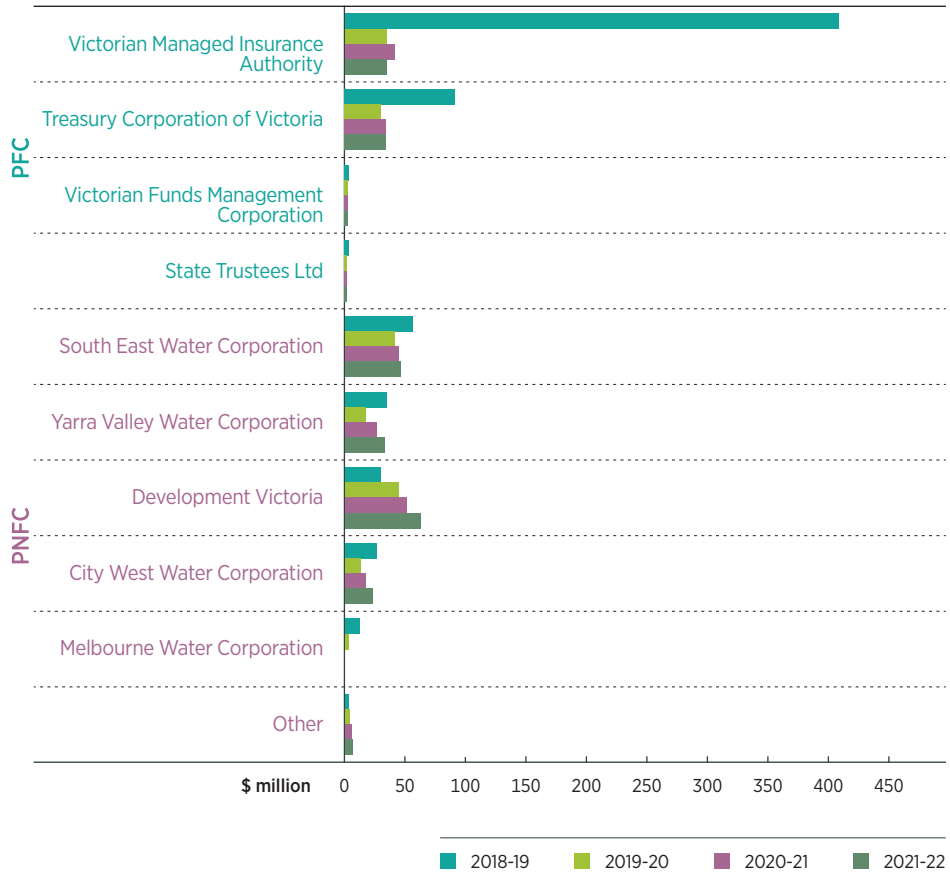
Source: Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.162

2.7 Dividends

Dividends, together with income equivalent and rate equivalent revenue, are expected to raise $922 million in 2018-19.[111] Most of this figure ($698 million or 72.3 per cent) is comprised of dividends from public financial corporations (PFC) and public non-financial corporations (PNFC) entities. For the remainder of the forward estimates period, dividends, income tax equivalent revenue and rate equivalent revenue are expected to fall back to $511 million for 2019-20, $564 million for 2020-21 and $552 million for 2021-22.

109 ibid.
110 ibid.
111 ibid., p.161

Figure 2.8 Dividends from the PFC and PNFC sectors, 2018-19 to 2021-22



Source: Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.161

Figure 2.8 shows most of the $698 million in estimated dividends for 2018-19 is expected to come from the Victorian Managed Insurance Authority (VMIA), which will pay $408 million, or 58 per cent of the PFC and PNFC dividend total. The budget papers note the 2018-19 dividend from the VMIA includes the deferred dividend payment from 2017-18, which was $365 million.[112] The Minister for Finance noted the strong financial position posted by the VMIA in recent years due to favourable claims in recent years to the Committee at the public hearing.[113]

FINDING 17: In 2018-19, dividends from the Victorian Managed Insurance Authority will pay 58 per cent of the $698 million dividend total. This includes a deferred payment from the entity from 2017-18.

112 ibid., p.21

113 Hon Robin Scott, Minister for Finance, *2018-19 Budget Estimates Transcript of Evidence*, 12 June 2018, p.3

3 Borrowings and debt

Key findings

- Borrowings for the general government sector are expected to reach $37.0 billion by June 2019, increasing by an average annual growth rate of 10.2 per cent over the forward estimates, to reach $45.0 billion by June 2022. The level of borrowings over the forward estimates period is expected to be higher than any level seen over the last decade.
- General government sector net debt is expected to be $24.3 billion by June 2019, and is forecast to increase at an average annual rate of 8.8 per cent over the forward estimates to reach $31.4 billion at the end of the forward estimates in June 2022.
- Net debt levels over the last two years have fallen below initial budget expectations due to higher than expected proceeds from the Port of Melbourne lease and Snowy Hydro asset sale.
- The full cost across the forward estimates of some infrastructure projects announced as part of the 2018-19 Budget, including the *North East Link*, the *Arts Centre Precinct Redevelopment* and the *Bendigo GovHub*, have not been fully disclosed. Thus the impact of these projects on net debt is unknown.
- The Government is on track to meet its six per cent of gross state product net debt target for the general government sector.
- Victoria continues to experience the highest population growth rate out of all Australian states, increasing by 2.3 per cent in the year to December 2017. While Victoria's gross state product growth rate for 2016-17 of 3.3 per cent was also the highest in Australia, on a per capita basis, Victoria's gross state product growth is less than New South Wales and South Australia.
- While spending on infrastructure in an environment where the population is increasing may increase real gross state product, as well as create employment opportunities, it is not likely to improve other standard of living measures such as labour productivity.

3.1 Introduction

This chapter examines the estimates for general government sector borrowings and net debt for the budget year ending June 2019, and over the forward estimates ending in June 2022.

The chapter discusses the Government's plans to considerably increase borrowings and net debt in the coming years to fund its forward infrastructure program. The impact of the Port of Melbourne lease and Snowy Hydro Ltd asset recycling initiatives on Victoria's net debt position is also examined, as well as the possible future impact of a series of infrastructure projects that were announced as part of this year's Budget.

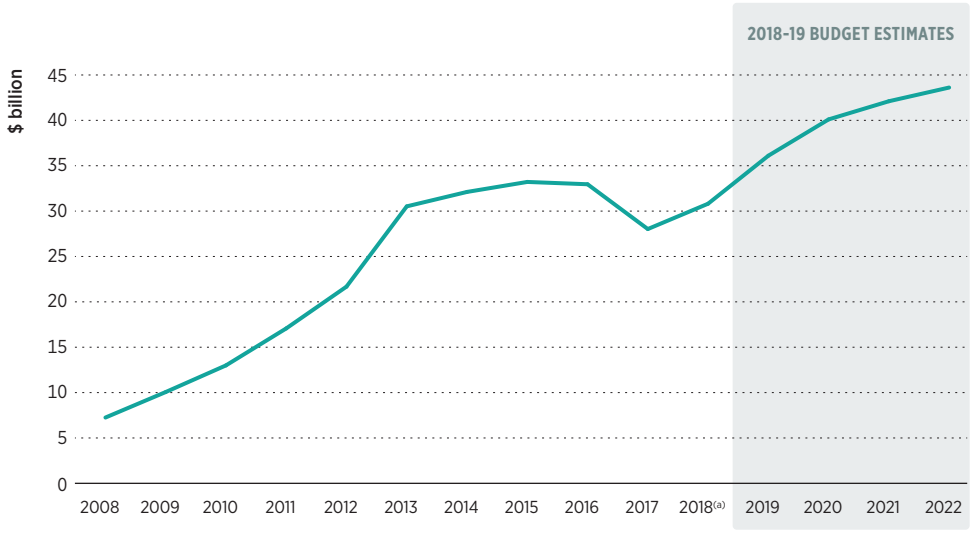
The chapter concludes by examining Victoria's net debt to gross state product (GSP) target and looks at the role of population increases and infrastructure activity as drivers of GSP growth.

3.2 Borrowings

Government borrowings consist mainly of loans to meet the costs of infrastructure projects. They are usually public debt arrangements made on behalf of the Victorian Government by the public financial corporation (PFC) entity Treasury Corporation of Victoria (TCV). As a government-backed entity, TCV is able to borrow money at lower interest rates than other commercial debt providers.

The Government expects borrowings for the general government sector to be $37.0 billion by June 2019, increasing by an average annual growth rate of 10.2 per cent over the forward estimates, to reach $45.0 billion by June 2022.[114] Figure 3.1 shows that the level of borrowings over the forward estimates period are expected to be higher than any level seen over the last decade.

Figure 3.1 Borrowings for the general government sector, 2008 to 2022



(a) The figure for 2018 is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Balance Sheet, General Government Sector* (2018)

At the 2017-18 budget estimates inquiry, the Treasurer informed the Committee that:

> ... We are currently in a period of extraordinarily low interest rates ... after the [Global Financial Crisis], the central banks right across the world substantially cut interest rates in an attempt to stimulate the economy and stimulate economic recovery. This period of substantially low interest rates has, at least to some extent, been a

114 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.9

> feature of financial markets since the [Global Financial Crisis]. In short, it is a very good time for governments to borrow in order to increase government investment in productive infrastructure.[115]

In terms of the lower interest rates paid on TCV loans, the Committee was informed that:

> As of 1 June 2018, the interest rate for a 10 year loan from TCV was 3.20% (inclusive of administrative costs). The TCV borrowing rates are subject to market fluctuations.[116]

While the current low interest rate environment makes it a favourable time to borrow funds, the Committee notes that repayments made towards the high level of borrowings projected over the forward estimates and beyond will fall to future governments. The need to repay these borrowings may constrain future governments in terms of funding services or creating new infrastructure.

FINDING 18: Borrowings for the general government sector are expected to reach $37.0 billion by June 2019, increasing by an average annual growth rate of 10.2 per cent over the forward estimates, to reach $45.0 billion by June 2022. The level of borrowings over the forward estimates period is expected to be higher than any level seen over the last decade.

3.3 Net debt

The Department of Treasury and Finance defines net debt in the following terms:

> Net debt effectively measures liquid borrowings less liquid financial assets. It can be crudely characterised as cash owed less cash owned.
>
> More technically net debt equals the sum of deposits held, advances received, government securities, loans and other borrowing less the sum of cash and deposits, advances paid and investments, loans and placements.[117]

As the Department of Treasury of Finance informed the Committee: 'The movements in borrowings are highly correlated with the movements to net debt'.[118]

General government sector net debt for June 2019 is expected to be $24.3 billion, and is forecast to increase at an average annual rate of 8.8 per cent over the forward estimates to reach $31.4 billion at the end of the forward estimates in June 2022.[119]

Figure 3.2 for net debt outcomes shows a similar pattern to borrowings since 2008.

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115 Hon Tim Pallas MP, Treasurer, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.16

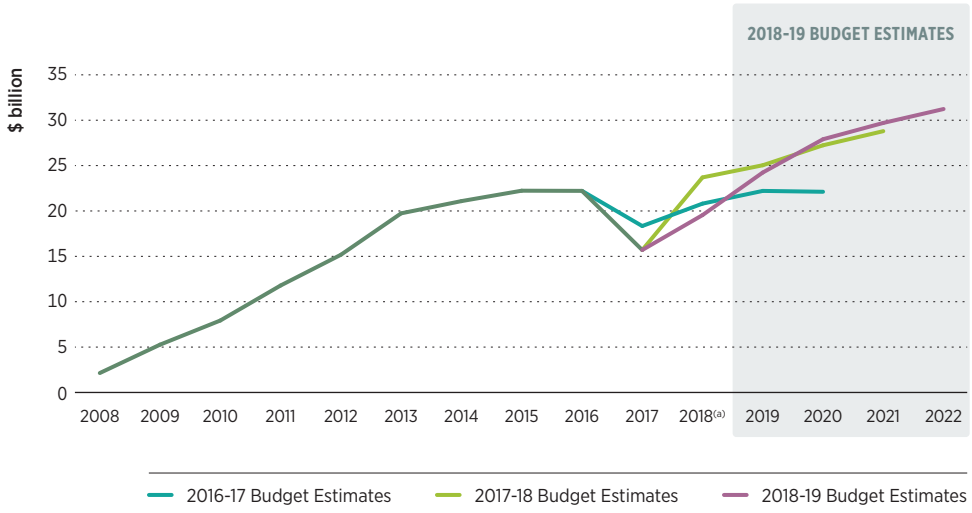
116 Hon Tim Pallas MP, Treasurer, *Response to the Committee's 2018-19 Budget Estimates Questions on Notice*, received 9 May 2018, p.1

117 Department of Treasury and Finance, *Treasury and Finance Glossary for Budget and Financial Reports* (undated), p.19

118 Department of Treasury and Finance, *Departmental Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 9 May 2018, p.46

119 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.9

Figure 3.2 Net debt for the general government sector, 2008 to 2022



(a) The figure for 2018 is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Balance Sheet, General Government Sector* (2018); Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.8

FINDING 19: General government sector net debt is expected to be $24.3 billion by June 2019, and is forecast to increase at an average annual rate of 8.8 per cent over the forward estimates to reach $31.4 billion at the end of the forward estimates in June 2022.

Impact of asset recycling initiatives

Figure 3.2 also compares the 2018-19 budget estimates for net debt with budget estimates over the previous two financial years. In both cases the actual or revised figure for net debt at 30 June of each year was considerably lower than the original budget estimate. This is mainly due to better than expected outcomes for the major asset recycling initiatives of the Port of Melbourne lease transaction and the sale of Victoria's share of Snowy Hydro Ltd to the Commonwealth.[120]

The *Asset Recycling* initiative was introduced by the Commonwealth Government in 2014. Under the arrangement, states that reinvest the proceeds of an asset sale towards productive infrastructure are eligible to receive a payment from the Commonwealth. The *Asset Recycling* payment rate from the Commonwealth is 15 per cent of the asset sale price.[121]

The Victorian Government announced in 2015 that it intended to use the *Asset Recycling* initiative in relation to the lease of operations of the Port of Melbourne.[122] Proceeds from the port lease transaction were initially identified to pay down net debt, then be used to fund level crossing removals together with other transport and infrastructure projects.[123]

120 Victoria had a 29 per cent share in Snowy Hydro Limited, with the Commonwealth holding 13 per cent and New South Wales holding 58 per cent. The Snowy Hydro Limited company owns and operates the Snowy Mountains Hydro Electricity Scheme, generating electricity for the National Energy Market. Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.57

121 Commonwealth of Australia, *Building Australia's Infrastructure* (2014), p.5

122 Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.11

123 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.9

The Government expected to receive approximately $7 billion from the port lease. It received $9.7 billion.[124] The extra revenue from the sale contributed to the actual net debt result at June 2017 of $15.8 billion compared to the original budget estimate of $18.4 billion.[125]

In March 2018, the Government sold the State's share of Snowy Hydro Limited to the Commonwealth for $2.1 billion.[126] This has contributed to a downward revision of the net debt figure for 2017-18 from $21.4 billion to $19.6 billion.[127]

FINDING 20: Net debt levels over the last two years have fallen below initial budget expectations due to higher than expected proceeds from the Port of Melbourne lease and Snowy Hydro asset sale.

The long term leasing of the land titles and registry functions of Land Use Victoria (LUV) (also discussed in Chapter 2 on revenue) is the latest asset 'commercialisation' announced by the Government. As discussed in the previous chapter, on Monday 27 August 2018 the Treasurer announced a concession was granted to Victorian Land Registry Services to operate the land titles and registry functions of LUV for $2.9 billion.[128]

Impact of the Government's unbudgeted infrastructure projects

The Government currently has a number of large scale infrastructure projects underway, including *High Capacity Metro Trains* (total estimated investment (TEI) of $2.2 billion), *Melbourne Metro Tunnel (Metro Various)* (TEI of $11.0 billion) and the *Level Crossing Removal Program (Metro Various)* (TEI of $6.8 billion).[129] The cost of these projects is contributing to the increase in general government sector net debt over the forward estimates period and beyond.

Further infrastructure project announcements were made as part of the 2018-19 Budget, and the Committee notes that in a number of cases only small levels of overall project funding have appeared in the budget papers, with the overall cost of the project omitted from the forward estimates. These include:

- the *North East Link*. This is a $16.5 billion project which was first announced in December 2016.[130] The 2018-19 Budget allocates $110 million in output and asset initiative funding for the *North East Link – Development to Procurement* project.[131] This is in addition to $100 million TEI allocated

124 Hon Tim Pallas MP, Treasurer, *Port of Melbourne Lease Transaction Finalised* (Media release 31 October 2016)

125 Department of Treasury and Finance, *Consolidated Balance Sheet, General Government Sector* (2018)

126 Hon Scott Morrison, Federal Treasurer, *Historic Snowy Deal* (Media release 2 March 2018)

127 Department of Treasury and Finance, *Consolidated Balance Sheet, General Government Sector* (2018)

128 Hon Tim Pallas MP, Treasurer, *Land Use Victoria Proceeds Deliver Infrastructure Boost* (Media release, 27 August 2018)

129 Department of Treasury and Finance, *Budget Paper No.4: 2018-19 State Capital Program* (2018), pp.27, 136

130 Hon Daniel Andrews MP, Premier and Hon Luke Donnellan MP, Minister for Roads and Road Safety, *Andrews Labor Government Will Build Missing Link To Connect Our City* (Media release 11 December 2016); Hon Daniel Andrews MP, Premier, *North East Link – Victoria's Biggest Ever Transport Project* (Media release 24 November 2017)

131 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), pp.11, 27, 32

in last year's budget for planning and preconstruction activities.[132] As the budget papers state the procurement stage of the project is expected to take place over 2018-19, it is reasonable to assume the project will be underway within the current forward estimates period ending 2021-22. At the public hearings the Treasurer did not rule out increasing debt levels into the future to pay for the project.[133]

- the *Arts Precinct Redevelopment Project*. On 3 June 2018, the Government announced the project to upgrade the Arts precinct in Southbank, including upgrading theatres and public spaces at the Arts Centre, together with purchasing the current Carlton & United Breweries (CUB) head office at 1 City Road Southbank to house the Australian Performing Arts Gallery as well as other administrative, education and research facilities.[134] The announcement stated the Government would invest $208 million over the first two years of the project. At the estimates public hearings, the Minister for Creative Industries informed the Committee that the project is expected to take up to ten years to complete.[135] The $208 million in allocated funding does not appear as either an output or asset investment initiative in this year's budget papers, with the Minister explaining to the Committee:

  > The biggest amount is contained within the contingencies provisions of the budget papers, and the $208 million figure—the largest proportion of that is reflected in the purchase of the CUB site, which was held in contingencies.[136]

  The Arts Centre upgrade is discussed further in Chapter 5 on Asset investment.

- the *Bendigo GovHub*. The 2018-19 Budget includes $16.1 million over 2019-20 and 2020-21 for the *Bendigo GovHub*.[137] This follows $1 million in output funding from last year's Budget to develop the project business case.[138] According to the 2018-19 budget papers the project is expected to be completed by June 2022, however no funding has been allocated to date beyond June 2021.[139] The cost of the *Ballarat GovHub* project is stated as $100 million, with a government contribution of $47.8 million.[140] Some reports have stated the overall cost of the Bendigo project are likely to be in the similar region of $90-100 million.[141]

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132 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.41, 45

133 Hon Tim Pallas MP, Treasurer, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.19

134 Hon Daniel Andrews MP, Premier, *Once-in-a-Generation Transformation of Arts Precinct*, (Media release, 3 June 2018)

135 Hon Martin Foley MP, Minister Creative Industries, *2018-19 Budget Estimates Transcript of Evidence*, 12 June 2018, p.5

136 ibid.

137 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.27

138 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2018), pp.27, 33

139 Department of Treasury and Finance, *Budget Paper No.4: 2018-19 State Capital Program* (2018), p.25

140 Hon Jaala Pulford MP, Minister for Regional Development, *Iconic Ballarat GovHub Given The Go-Ahead*, (Media release, 12 April 2018)

141 William Vallely, 'New project to bring 1000 public sector jobs into central Bendigo to enliven CBD', *Bendigo Advertiser*, 1 May 2018

FINDING 21: The full cost across the forward estimates of some infrastructure projects announced as part of the 2018-19 Budget, including the *North East Link, the Arts Centre Precinct Redevelopment* and the *Bendigo GovHub*, have not been fully disclosed. Thus the impact of these projects on net debt is unknown.

RECOMMENDATION 1: Where an infrastructure project is announced in a budget, the Government should fully disclose the total cost of the project across the budget year and forward estimates at the earliest opportunity, so the net debt impact can be understood by the community.

3.4 Net debt as a proportion of gross state product

While the expected increase in general government sector net debt outlined in the 2018-18 Budget will see it rise by 60 per cent from the revised June 2018 figure of $19.6 billion to $31.4 billion by June 2022, the Government has estimated this will be within the '6 per cent of Victoria GSP' target it established some years ago.[142] The Treasurer informed the Committee at the estimates public hearings:

> ... net debt as a percentage of GSP is expected to be 4.6 per cent, as at June 2018. As I have indicated, it is going to sit around about 6 per cent of the size of the economy. Quite frankly we can talk about absolute dollars or you can talk about the size of the economy. I always think the percentage number is a much more useful indication, just as anybody who has got a debt to service knows it is as much a function of their capacity to pay—in fact, more a function of their capacity to pay—than the level of the debt itself.[143]

While the Committee notes that Victoria's forecast net debt to GSP figure compares favourably with other jurisdictions (the Commonwealth debt to GDP (Gross Domestic Product), for example, is forecast for 18.4 per cent for 2018-19[144]) the target of six per cent of GSP appears to have been established because it was the level in place when the current Government came into office. The Treasurer told the Committee:

> ... debt remains, as a proportion of the size of the economy, below the level we inherited and it will remain below the level we inherited from the previous government all the way through the forward estimates.[145]

Some commentators have noted that the six per cent of GSP ceiling is unnecessarily arbitrary, and will inhibit future infrastructure spending.[146]

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142 The Government's debt strategy is: 'general government's sector net debt as a percentage of GSP [is] to be maintained at a sustainable level over the medium term'. See Department of Treasury and Finance, *Budget Paper No.2: 2015-16: Strategy and Outlook* (2015), p.14

143 Hon Tim Pallas MP, Treasurer, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.24

144 Commonwealth of Australia, *Budget Strategy and Outlook Budget Paper No. 1 2018-19* (2018), p.7-3

145 Hon Tim Pallas MP, Treasurer, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.20

146 Tim Colebatch, 'Budgeting in Boom Time', *Inside Story*, 2 May 2018. Available at <https://www.insidestory.org.au/budgeting-in-boom-time>, viewed 26 June 2018

FINDING 22: The Government is on track to meet its six per cent of gross state product net debt target for the general government sector.

Forecast gross state product growth for Victoria

In addition to the Government's debt strategy, net debt as a proportion of GSP depends on the level of the State's economic growth. The Government has forecast Victoria's real GSP growth rate of 3.0 per cent for 2017-18, and a trend level of 2.75 per cent for each year across the forward estimates to 2021-22.[147]

The latest Australian Bureau of Statistics (ABS) data of real GSP growth for 2016-17 shows Victoria's growth rate of 3.3 per cent was the highest of all Australian states. However, as the ABS notes 'Population growth rates across states explain some differences in GSP growth, [so] it is therefore useful to analyse movements in GSP per capita'.[148] On this measure, the Victorian growth rate of 0.9 per cent is below that of New South Wales (1.1 per cent) and South Australia (1.4 per cent). The Treasurer explained the importance of this measure to the Committee at the estimates public hearings:

> ... effectively real GSP per capita growth is essentially wealth that is being distributed across the economy. It is what share of that growth is occurring across the population of the state. Of course those numbers being in positive territory is great news for all Victorians.[149]

Victoria has experienced very strong population growth over recent years. The latest ABS data shows Victoria continues to have the highest population growth rate out of all the states, increasing by 2.3 per cent over the year to December 2017, well above the national average of 1.6 per cent.[150] The 2018-19 budget papers have forecast a 2.3 per cent population growth rate for 2017-18, with the growth falling by 0.1 percentage point each year over the forward estimates, to a forecast of 2 per cent by 2020-21 and 2021-22.[151]

FINDING 23: Victoria continues to experience the highest population growth rate out of all Australian states, increasing by 2.3 per cent in the year to December 2017. While Victoria's gross state product growth rate for 2016-17 of 3.3 per cent was also the highest in Australia, on a per capita basis, Victoria's gross state product growth is less than New South Wales and South Australia.

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147 Department of Treasury and Finance, *Budget Paper No.2: 2018-19 Strategy and Outlook* (2018), p.17

148 Australian Bureau of Statistics, *Cat. No. 5220.0 - Australian National Accounts: State Accounts Analysis of Results, 2016-17* (2017). Available at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5220.0Main%20Features22016-17?opendocument&tabname=Summary&prodno=5220.0&issue=2016-17&num=&view=>, viewed 3 July 2018

149 Hon Tim Pallas MP, Treasurer, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.24

150 Australian Bureau of Statistics, *Cat No. 3101.0 - Australian Demographic Statistics, December 2017*. Available at <https://www.abs.gov.au/ausstats/abs@.nsf/latestProducts/3101.0Media%20Release1Dec%202017?OpenDocument>, viewed 3 July 2018

151 Department of Treasury and Finance, *Budget Paper No.2: 2018-19 Strategy and Outlook* (2018), p.17

The 2016-17 budget papers noted the importance of keeping Victoria's economic growth higher than the State's population growth to ensure '... all Victorians benefit from economic growth, and [this] relies on greater employment and increased productivity'.[152]

A key economic and social risk related to high population growth is that the increase in population sees greater pressure placed on existing infrastructure such as transport, utilities and housing. Thus, it is important to increase both private and public infrastructure investment when the population is expanding to ensure that people's living standards are maintained.

The most recent ABS data on engineering construction activity up to March 2018 shows the value of works done in Victoria over the previous year increased by 48.1 per cent, while the value of public sector work commenced over the previous year increased by 80.9 per cent.[153] The Treasurer commented on the impact of the infrastructure program on the state's economic growth at the estimates public hearings:

> Of course a significant driver of that [GSP growth] is our infrastructure investment strategies. It is also, might I say, a significant driver of employment and economic activity in the state. It is a virtuous cycle effectively of investment that is occurring here, and we are seeing a lot of employment flow from it. We are seeing a lot of wealth being distributed throughout the economy as a consequence of it.[154]

FINDING 24: The current high level of public infrastructure activity in Victoria is contributing to the State's economic growth and creating employment opportunities.

While the current infrastructure program is creating demand for employment and services, some commentators have noted it is not necessarily the most effective way to grow the economy.[155] Economic growth can also be measured in terms of capital spent per worker. An increase in capital spent per worker is known as 'capital deepening', and is seen as an indicator of improving labour productivity. The current situation, whereby capital expenditure keeps up with the demands of the increasing population, is known as 'capital widening.' A paper released by the Australia Institute on national infrastructure explains the impact of the two measures:

> As a nation we tend to save a certain amount which can be used for capital widening or capital deepening. The higher is population growth the higher is the amount of investment required for capital widening—to maintain the existing capital to worker ratio. If the capital to worker ratio is allowed to fall then there is a risk that living standards may deteriorate. So the higher is population growth the more investment is needed for capital widening—just to stand still so to speak.

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152 Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.3

153 Australian Bureau of Statistics, *Cat. No. 8762.0 - Engineering Construction Activity, Australia March 2018*. Available at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/8762.0Main+Features1Mar%20 2018?OpenDocument>, viewed 6 July 2018

154 Hon Tim Pallas MP, Treasurer, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.24

155 Ross Gittens, 'Immigration the cheap and nasty way to grow the economy', *The Sydney Morning Herald,* 18 March 2018

> If Australia's savings is limited[156] then additional capital widening may 'crowd out' capital deepening or vice versa. High population growth implies that a good deal of additional investment is required just to maintain a constant capital per head—capital widening. But the more investment is taken up by capital widening the less is available for capital deepening. It is capital deepening that is associated with higher productivity and rising living standards.[157]

Labour productivity measures the amount of goods and services that an average worker can produce in an hour of work. It is generally considered the most important determinant of the standard of living, as increased productivity growth leads to an increase in the standard of living.[158] At the national level, the latest data available (for 2016-17) shows that annual growth in labour productivity was the lowest experienced in five years.[159] Studies of annual growth in Victorian labour productivity show it has lagged behind the national average since 2008-09.[160] Thus while the current expenditure on infrastructure when the population is increasing rapidly is contributing to positive economic growth and employment outcomes, this will not necessarily equate to improved economic outcomes—including a higher standard of living for Victorians over the longer term.

FINDING 25: While spending on infrastructure in an environment where the population is increasing may increase real gross state product, as well as create employment opportunities, it is not likely to improve other standard of living measures such as labour productivity.

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156 The Australia Institute submission defines savings as 'resources that are available for investment after consumption, government expenditures and net exports'.

157 David Richardson, *Public Infrastructure Financing: Submission to the Productivity Commission*, The Australia Institute (2014), p.18

158 Economic Policy Institute, *The Link between Productivity Growth and Living Standards* <https://www.epi.org/publication/webfeatures_snapshots_archive_03222000> viewed 9 July 2018

159 CommSec, *Economic Insights: Labour Productivity is Lowest in 5 years Job vacancies are highest in 5½ years* (2018). Available at <https://www.commsec.com.au/content/dam/EN/ResearchNews/ECO_Insights-24018-labour-productivity-at-5year-low.pdf> viewed 3 July 2018

160 Premier's Job and Investment Panel, *Enhancing Victoria's Economic Performance and Productivity – Discussion Paper* (2017), p.8; Saul Eslake, *The Importance of Productivity Growth as a Driver of Victoria's Economy*, Presentation to the Public Accounts and Estimates Committee (2016)

4 Output expenditure

Key findings

- Forward estimates for employee expenses over the last two budgets have increased driven by increases in the number of public sector workers in the education, health, community services, policing and corrections sectors. Higher remuneration levels resulting from recent enterprise bargaining agreements for teachers, police and public health sector workers have also contributed to the increase.
- Only four of the nine departments questioned by the Committee provided information on the proportion of their workforce who have a disability. Approximately four per cent of these departments' workforce has a disability in contrast to the general population where over 18 per cent of Victorian's live with a disability. Half of working-age people with a disability participate in the labour force, according to the Australian Bureau of Statistics.
- Other operating expenses ($21.3 billion in 2018-19) are expected to decrease to $20.5 billion in 2021-22. The fall is largely due to the rollout of the National Disability Insurance Scheme, whereby existing payments made by the State on disability services will be transferred to the Commonwealth. Following this, the transition to the National Disability Insurance Scheme will see grant expenses increase over the next two years.
- Health expenditure accounts for a growing proportion of Victoria's budget. This follows the trend seen in other Australian jurisdictions and Organisation for Economic Co-operation and Development countries. The ongoing growth in health expenditure presents a risk to the sustainability of future budgets.
- Modelling undertaken by the Department of Treasury and Finance to inform current and future health expenditure in Victoria is not publicly released.
- Demographic factors such as population growth and ageing account for only a small proportion of the growth in health expenditure in Victoria and other jurisdictions. The main cost drivers include non-demographic factors such as new technologies and treatments, rising incomes, increased consumption of healthcare and rising rates of chronic disease.
- Intergenerational reports are produced by the Commonwealth and New South Wales Treasury departments every five years. Such reports inform sound financial management and the principle of intergenerational equity. Such reports also inform the community and facilitate public scrutiny of government spending.
- The number of homeless people in Victoria increased by 36.7 per cent, from 18,154 people to 24,817 people, between 2001 and 2016.
- The current uncertainty associated with Commonwealth funding agreements presents a risk for funding and service delivery to people experiencing homelessness.

- There has been an underspend in output initiatives designed to alleviate homelessness, announced over the last two years. The data provided by the Department of Health and Human Services shows that only 60 per cent of the *Family Violence Housing Blitz*, 24 per cent of the private rental brokerage, 52 per cent of the *Homes for Victorians* and 31 per cent of the housing support for family violence victims funding has been or will be expended in the originally stipulated timeframes.
- There is little uniformity across departments in defining what constitutes labour hire and applying labour hire guidelines.
- A gap in capability and capacity regarding information technology is present across most departments. Departments are paying contractors and consultants often at above market rates to access specialised information technology skills. This represents a missed opportunity to enhance in house information technology expertise.
- Key risks in the engagement of contractors and consultants that have been identified by the departments are confidentiality concerns, inappropriate engagements, reputational risk, high costs and the possible erosion of internal capability.
- With the exception of the Department of Parliamentary Services, none of the departments provided the financial information that was requested by the Committee on the use of contractors and consultants.

4.1 Introduction

The Government's output expenditure relates to the delivery of services such as education, health, public order and safety, and transport.

This chapter provides an overview of output expenditure for the general government sector over the forward estimates period, as presented in the 2018-19 Budget. It also analyses the spending across the major output expenditure components of employee expenses, other operating expenses and grants for 2018-19 and the forward estimates period. Recent changes made to departmental and public sector reporting on employees in terms of gender diversity and employing people with a disability are also discussed.

The chapter then examines three areas of government expenditure that are of significant public interest in greater detail. They are:

- health expenditure and its impact on intergenerational equity
- initiatives and spending outcomes related to homelessness
- issues related to the use of contractors, consultants and labour hire by departments.

4.2 Output expenditure estimates

Total output expenditure for the general government sector is expected to be $68.1 billion in 2018-19, increasing by 9.9 per cent in comparison to the 2017-18 revised estimate of $61.9 billion.[161] The 2018-19 Budget forecasts output expenditure to grow by an annual average of 3.9 per cent and reach $72.1 billion in 2021-22.[162] This growth rate is lower than the estimated average growth rate of 4.6 per cent between 2011-12 and 2017-18.[163]

Table 4.1 shows the 2018-19 budget estimates for output expenditure over the forward estimates period.

Table 4.1 Total output expenditure, 2018-19 to 2021-22

	2018-19 Budget	2019-20 estimate	2020-21 estimate	2021-22 estimate
Total output expenditure ($ billion)	68.1	68.6	69.9	72.1
Annual growth rate (per cent)	9.9	0.8	1.8	3.2
Average annual growth rate[(a)] (per cent)			**3.9**	

(a) Compound annual growth rate from 2018-19 to 2021-22

Source: Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.7; Committee calculations based on Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2018)

FINDING 26: Total output expenditure for the general government sector is expected to be $68.1 billion in 2018-19. Output expenditure is expected to grow by an annual average of 3.9 per cent and reach $72.1 billion by 2021-22. This growth rate is lower than the estimated average growth rate of 4.6 per cent between 2011-12 and 2017-18.

4.3 Components of output expenditure

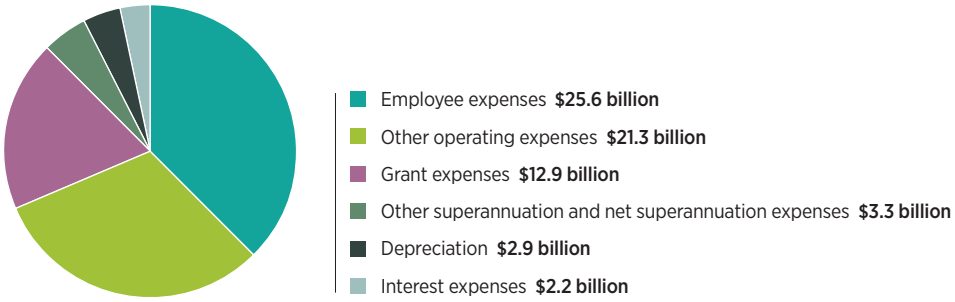
The output expenditure estimates according to the line items in the budget papers' operating statement are illustrated in Figure 4.1

161 Department of Treasury and Finance, *Budget Paper No.2: 2018-19 Strategy and Outlook* (2018), p.49

162 ibid., p.52

163 Committee calculations based on the Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2018)

Figure 4.1 Output expenditure components, 2018-19[(a)]



(a) Figure will not add up due to rounding.

Source: Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2018), p.7

Figure 4.1 shows the three largest output expenditure components anticipated for 2018-19 are employee expenses ($25.6 billion or 37.5 per cent), other operating expenses ($21.3 billion or 31.2 per cent) and grant expenses ($12.9 billion or 18.9 per cent).

4.3.1 Employee expenses

Employee expenses are the largest component of output expenditure. They include all costs related to employment, including wages and salaries, superannuation, fringe benefits tax, leave entitlements and redundancy payments.[164] These costs relate to employment within the Victorian public service and employment as part of the general government sector.

Employee expenses are expected to increase at an average annual growth rate of 3.4 per cent per year to reach $28.3 billion in 2021-22.[165] The change from the 2017-18 revised figure to the 2018-19 Budget represents an increase of 11.2 per cent.[166] The Department of Treasury and Finance states in the budget papers that:

> The growth in 2018-19 reflects increases in public sector workers to support Victoria's growing population, including teachers and education workers to deliver the Government's Education State commitment, public health and community services workers for increased acute and mental health services, and police and corrections officers to deliver the Government's community safety agenda. The increase in employee expenses also reflects changes in average remuneration levels consistent with enterprise bargaining agreements, including teachers, police and public health sector agreements.[167]

The increase in employee expenses from the 2017-18 Budget and the 2018-19 Budget has resulted in an increase in expected spending in the forward estimates. Expected expenditure in 2019-20 has increased by 6.6 per cent from

164 Department of Treasury and Finance, *Annual Report 2016-17* (2017), p.48

165 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2018), p.7

166 Committee calculations based on: Department of Treasury and Finance, *Budget Paper No.2: Strategy and Outlook* (2018), p.49

167 Department of Treasury and Finance, *Budget Paper No.2: Strategy and Outlook* (2018), p.52

the 2017-18 Budget to the 2018-19 Budget. Expected expenditure for 2020-21 has increased by 7.7 per cent from the 2017-18 Budget to the 2018-19 Budget.[168] The Committee has previously noted underestimation in the budget papers of employee expenses—this pattern of underestimation has continued.[169]

FINDING 27: Forward estimates for employee expenses over the last two budgets have increased driven by increases in the number of public sector workers in the education, health, community services, policing and corrections sectors. Higher remuneration levels resulting from recent enterprise bargaining agreements for teachers, police and public health sector workers have also contributed to the increase.

The Committee questioned departments on employee expenses variations above 10 per cent between the 2017-18 revised figure and the 2018-19 budgeted figure. Two departments recorded employee expenses variations above 10 per cent over this period:

- The Department of Premier and Cabinet recorded an increase in employee expenses from $229 million in 2017-18 to an expected $266 million in 2018-19.[170] The Department noted the increase was:

  > ... primarily due to the staffing component of the Special Appropriation provided to the Victorian Electoral Commission for the 2018 Victorian Elections and new funding decisions such as 'Data and Behavioural Insights' and 'Enhancing Public Sector Capability' programs. Additional staff will be recruited to support these programs.

- The Department of Health and Human Services recorded an increase of just over 10 per cent in employee expenses—from $11.6 billion in 2017-18 to an expected $12.8 billion in 2018-19. The Department reasoned that the increase was primarily due to additional funding initiatives in the budget and revised estimates of health portfolio agencies to reflect forecast employee expenditure.[171]

Over the course of this Parliament, the Committee has also noted the continued underestimation of employee expenses relating to the health sector.[172] In the *Report on the 2015-16 Financial and Performance Outcomes*, the Committee made two recommendations relating to forecasting hospital demand and the impact of this on health sector salaries.[173] The Government supported both these recommendations, and noted in its response that:

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168 Committee calculations based on: Department of Treasury and Finance, *Budget Paper No.2: Strategy and Outlook* (2017), p.50; Department of Treasury and Finance, *Budget Paper No.2: Strategy and Outlook* (2018), p.49

169 Public Accounts and Estimates Committee, R*eport on the 2015-16 Financial and Performance Outcomes* (2017), pp.115-7

170 Department of Premier and Cabinet, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 11 May 2018, p.5

171 Department of Health and Human Services, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 15 May 2018, p.6

172 Public Accounts and Estimate Committee, *Report on the 2017-18 Budget Estimates* (2017) pp.91-2; Public Accounts and Estimates Committee, *Report on the 2015-16 Financial and Performance Outcomes* (2017), Recommendations 12 and 13, pp.115-7

173 Public Accounts and Estimates Committee, *Report on the 2015-16 Financial and Performance Outcomes* (2017), Recommendations 12 and 13, pp.116-7

> The Department of Treasury and Finance will continue to consult with the Department of Health and Human Services to better estimate hospital expenditure, including hospital demand projections and associated employee expenses.[174]

The growth in health expenditure and the impact of this on the budget is discussed in further detail in section 4.4.1.

FINDING 28: The underestimation of employee expenses for 2018-19 between the 2017-18 Budget and the 2018-19 Budget was driven by extra funding made available to support the upcoming Victorian election, new programs such as 'Data and Behavioural Insights' and a revision to the employee estimates across health portfolio agencies.

Gender diversity and employing people with a disability in the Victorian public service

As part of this inquiry the Committee asked departments to provide a breakdown of their employees by gender, as well as the proportion of their workforce who identify as having a disability.

In terms of gender diversity, responses to the Committee's questionnaire regarding the actual full-time equivalent employees at 30 June 2017 show all but three departments employ more females than males. This reflects a wider trend in the Victorian public sector workforce, in which 67 per cent are women.[175] Estimates for 2018-19 show a similar forecast regarding gender diversity in departments. For 2017-18 onwards, departments are required to record gender diversity in the workplace using non-binary parameters.[176]

In terms of workers who identify as having a disability, the questionnaire asked departments to provide data on the proportion of employees with a disability. Only four departments were able to provide this data.[177] Of these, the Department of Health and Human Services and the Department of Treasury and Finance based their response on the four per cent figure from the *People Matter Survey 2017*, rather than payroll or human resources data. The Department of Economic Development, Jobs, Transport and Resources noted their headcount figure on 30 June 2017 of 38:

> ... represents staff who have personally identified as having a disability on the department's systems. However, the anonymously completed 2017 People Matter Survey data for the department indicates that the actual occurrence of disability is approximately 4 per cent, which would equate to a head count of 128 staff with a disability.[178]

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174 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Financial and Performance Estimates*, tabled 24 November 2017, p.8

175 Victorian Public Sector Commission, *State of the Public Sector 2016-17* (2018), p.31

176 Department of Treasury and Finance, *Financial Reporting Directive 29C, Workforce data disclosures in the Report of Operations – public service employees* (2018), p.6

177 They were the Department of Health and Human Services, the Department of Treasury and Finance, the Department of Economic Development, Jobs, Transport and Resources and the Department of Premier and Cabinet.

178 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 11 May 2018, p.7

The Committee notes that the four per cent figure quoted in the *People Matter Survey 2017* is still a low number compared to the general population, where over 18 per cent of Victorians live with a disability.[179] According to the Australian Bureau of Statistics *2012 Survey of Disability and Labour Force Participation*, 53 per cent of working-age people with a disability were in the labour force.[180] Of the people neither employed nor actively looking for work, one-third were permanently unable to work. One-fifth (19 per cent or 201,500) had no employment restriction, reporting that it was not their disability which was preventing them from working. The Australian Human Rights Commission has found that negative attitudes, physical barriers and difficulties accessing necessary supports still limit the opportunities of people with disabilities to find work, study, socialise and be included in community life.[181]

The Committee further notes that the Government has set a target of six per cent of public sector employees with a disability by 2020, increasing to 12 per cent by 2025 as part of the *Every Opportunity: Victorian Economic Participation Plan for People with Disability 2018–2020.*[182]

The Minister for Housing, Disability and Ageing explained at the estimates hearing, that there is scope for improvement in employing more people with a disability in the public sector:

> … people with disabilities are disproportionately under-represented in education, in the workforce and in just about any measure of social participation. So the dignity of work or training to be extended to people with disability lies at the heart of the economic participation plan that underpins one of the pillars of the state disability plan.
>
> We want to make sure that government, as the largest employer in the state—and one with far from the best record when it comes to the engagement of people with disabilities, particularly compared to some larger private sector employers—lifts its game. Whether it be through good jobs, mentorships or internships with the public service, we think there is the prospect for us to do better and to look to different models. We know that in terms of numbers the jobs in the public sector undertaken by people with disabilities have been lower than they should be and indeed have been going backwards for some time. We set ourselves the target of making sure that by 2020—the most recent disability plan—we lift the number of Victorians with disability in the public sector to 6 per cent. That is double what it is now, and I think that is achievable.[183]

The People Matter Survey does not define 'disability' and relies on people self-identifying. The Every Opportunity strategy does not define 'disability'.

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179 Department of Health and Human Services, *People with a disability in Victoria* <https://www.providers.dhhs.vic.gov.au/people-disability-victoria>, viewed 18 July 2018

180 Australian Bureau of Statistics, *Cat. No. 4433.0.55.006 - Survey of Disability and Labour Force Participation* (2012), latest issue released 5 February 2015

181 Australian Human Rights Commission, *Face the Facts Disability Rights* <https://www.humanrights.gov.au/face-facts-disability-rights>, viewed 31 July 2018

182 Department of Health and Human Services, *Every Opportunity: Victorian Economic Participation Plan for People with Disability 2018–2020* (2018), p.5

183 Hon Martin Foley MP, Minister for Housing, Disability and Ageing, *2018-19 Budget Estimates Transcript of Evidence*, 12 June 2018, p.14

FINDING 29: Only four of the nine departments questioned by the Committee provided information on the proportion of their workforce who have a disability. Approximately four per cent of these departments' workforce has a disability in contrast to the general population where over 18 per cent of Victorian's live with a disability. Half of working-age people with a disability participate in the labour force, according to the Australian Bureau of Statistics.

RECOMMENDATION 2: Departments begin collecting data on the proportion of their workforce who have a disability based on their own payroll and human resources systems, in order to establish baseline data and meet the recruitment targets set out in the Government's *Every Opportunity: Victorian economic participation plan for people with disability 2018-2020*.

4.3.2 Other operating expenses

Other operating expenses 'generally represent the day-to-day running costs incurred in normal operations, and mainly include the purchase of supplies and consumables and the purchase of services'.[184] The Department of Treasury and Finance outlines that other operating expenses are forecast based on experience and established activity changes, 'including consideration of government policy such as efficiency measures, changes in the method of service delivery and appropriate economic parameters'.[185]

Other operating expenses represent the second highest output expense and are expected to be $21.3 billion in 2018-19. They are expected to decrease to $20.5 billion in 2021-22. Contrary to employee expenses and grant expenses—which are expected to increase in a linear fashion across the forward estimates—other operating expenses are forecast to drop in 2019-20 then increase through the forward estimates. This is primarily due to a reduction in 'purchase of supplies and consumables' spending and a reduction in 'purchase of services' spending. The budget papers state that the reduction of 'purchase of services' spending in 2019-20 is:

> ... largely driven by the State's existing expenditure on disability services, including payments to disability service providers, being allocated towards the State's contribution to the NDIS [National Disability Insurance Scheme]. These services will be funded by the NDIS.[186]

The Minister for Housing, Disability and Ageing explained the joint Commonwealth-State funding arrangements for the NDIS to the Committee at the public hearings:

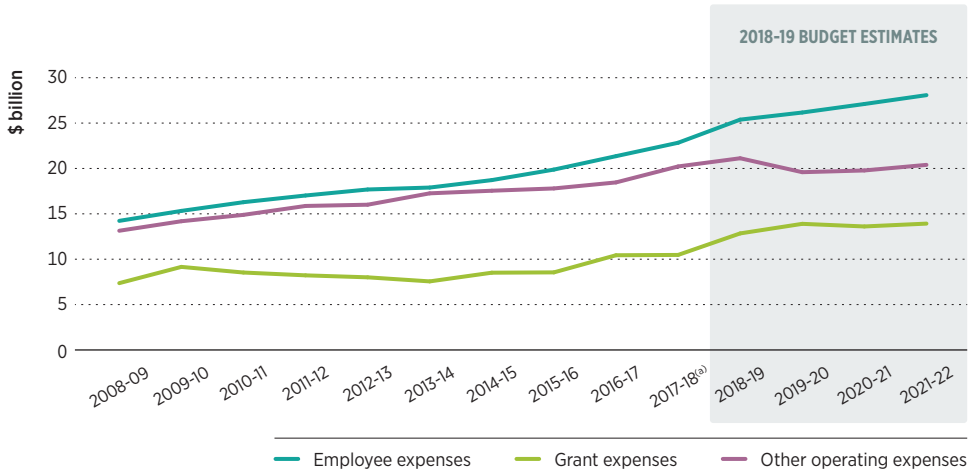
> Whilst the NDIA [National Disability Insurance Agency] is a commonwealth agency, its funding will forever continue to be a combination of state and commonwealth funding. That was the 2013 national agreement, and then the 2016 bilateral agreements around the country were about how you bring together from a disjointed

184 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2018), p.28
185 ibid.
186 ibid., p.27

federally funded and state funded series of systems the one coherent approach. The states will continue to provide substantial support, to the tune of 2.5 billion, for rollout in 2020, and then there will be a series of indexation arrangements in perpetuity to make sure that the states and the commonwealth are joint funders.[187]

Figure 4.2 shows the differences in movement between employee expenses, other operating expenses and grant expenses from 2011-12 to the end of the forward estimates period.

Figure 4.2 Output expenditure components, 2008-09 to 2021-22



(a) The 2017-18 figure is a revised estimate.

Source: Committee calculations based on Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2018)

The Department of Treasury and Finance outlines that other operating expenses 'are forecast to increase by 4.5 percent in 2018-19 and decrease by an average of 1.2 per cent a year over the forward estimates to $20.5 billion in 2021-22'.[188]

FINDING 30: Other operating expenses ($21.3 billion in 2018-19) are expected to decrease to $20.5 billion in 2021-22. The fall is largely due to the rollout of the National Disability Insurance Scheme, whereby existing payments made by the State on disability services will be transferred to the Commonwealth. Following this, the transition to the National Disability Insurance Scheme will see grant expenses increase over the next two years.

187 Hon Martin Foley MP, Minister for Housing, Disability and Ageing, *2018-19 Budget Estimates Transcript of Evidence*, 12 June 2018, p.6

188 Department of Treasury and Finance, *Budget Paper No.2: Strategy and Outlook* (2018), p.52

4.3.3 Grant expenses

Grant expenses include 'grants, subsidies, personal benefit payments made in cash to individuals, other transfer payments made to the Commonwealth Government, local government, non-government schools and community groups'.[189] Grant expenses are expected to account for 19 per cent of total output expenditure in 2018-19, and are anticipated to increase from $12.9 billion in 2018-19 to $14 billion in 2021-22.[190]

Figure 4.3 breaks down grant expenses into classifications and shows that 'grants within the Victorian Government' are expected to be the largest grant expense, accounting for 29 per cent (or $3.7 billion) of total grant expenses.

Figure 4.3 Grant expenses, 2018-19

Source: Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2018), p.27

The rollout of the NDIS over the next two years will see grants increase, to counter the decrease in grant expenses previously discussed. The budget papers note that:

> ... grants and other transfer expenses are forecast to increase by 22.8 per cent to $12.9 billion in 2018-19, largely driven by payments made to the National Disability Insurance Agency for disability services as part of the full roll out of the NDIS. Thereafter, growth is expected to moderate to an average of 2.7 per cent a year over the forward estimates.[191]

FINDING 31: Grant expenses are expected to be $12.9 billion in 2018-19, accounting for 19 per cent of total output expenditure. They are anticipated to increase from $12.9 billion in 2018-19 to $14.0 billion in 2021-22. The transition to the National Disability Insurance Scheme is the main driver for increases in grant expenses over the next two years.

The Committee questioned departments on grants and other expenses variations above 10 per cent between the 2017-18 revised figure and the 2018-19 budgeted figure. Five out of the nine departments questioned by the Committee reported increases of over 10 per cent in grant expenses.

189 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2018), p.27
190 Department of Treasury and Finance, *Budget Paper No.2: Strategy and Outlook* (2018), p.49
191 ibid., p.52

Table 4.2 outlines the differences between the 2017-18 revised figure and the 2018-19 budgeted figure, the percentage variance and the explanation provided by each department.

Table 4.2 Grant expense variations above 10 per cent

Department	Expenditure increase	Variance[a]	Explanation
Department of Environment, Land, Water and Planning	$835 million to $1,053 million	23 per cent	No explanation provided
Department of Health and Human Services	$2.35 billion to $3.02 billion	28 per cent	Primarily due to an increase in the State's contribution to the NDIA via the NDIS Trust Fund and additional funding for new initiative announced in the budget.[b]
Department of Justice and Regulation	$1.32 billion to $1.46 billion	11 per cent	Primarily due to new output initiatives in the budget, including baseline funding for the Emergency Services Telecommunications Authority (ESTA) and increased security measures in Melbourne central business district.[c]
Department of Premier and Cabinet	$137 million to $212 million	55 per cent	'Primarily due to grants for establishing and re-locating jobs in the Latrobe Valley and new funding decisions for 'Pick My Project', and Multicultural Community Infrastructure Programs'.[d]
Department of Treasury and Finance	$6.8 million to $42.6 million	526 per cent	Primarily due to expenses from 'grant funding to the Valuer General Victoria to implement the centralised annual land valuations initiative.'[e]

(a) Percentages bases on Committee calculations

(b) Department of Health and Human Services, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 15 May 2018, p.7

(c) Department of Justice and Regulation, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 10 May 2018, p.7

(d) Department of Premier and Cabinet, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 11 May 2018, p.6

(e) Department of Treasury and Finance, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 9 May 2018, p.4

FINDING 32: The Department of Environment, Land, Water and Planning did not provide the Committee with an explanation for the 23 per cent increase in grant expenses between the 2017-18 revised figure and the 2018-19 budgeted figure.

4.4 Output expenditures of significant public interest and government expenditure

This section will examine the following areas of government expenditure that are of significant public interest:

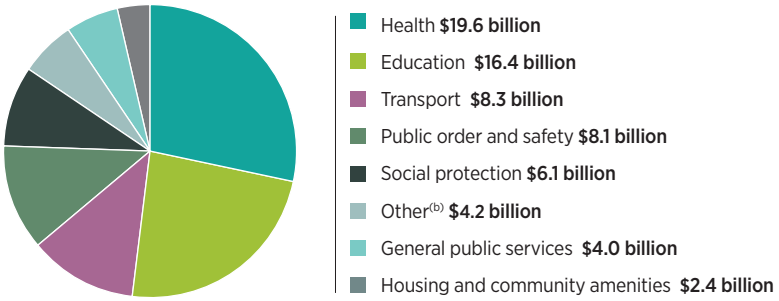
- health expenditure and intergenerational equity
- initiatives and spending outcomes related to homelessness
- issues related to the use of consultants, contractors and labour hire by departments.

4.4.1 Health expenditure and intergenerational equity

Health expenditure and the Budget

Figure 4.4 shows that spending on health is expected to be the largest area of budget spending by category for 2018-19, costing $19.6 billion, or 28.4 per cent of the output expenditure total.

Figure 4.4 Output expenditure by classification, 2018-19[(a)]



(a) The figure may not add up due to rounding.

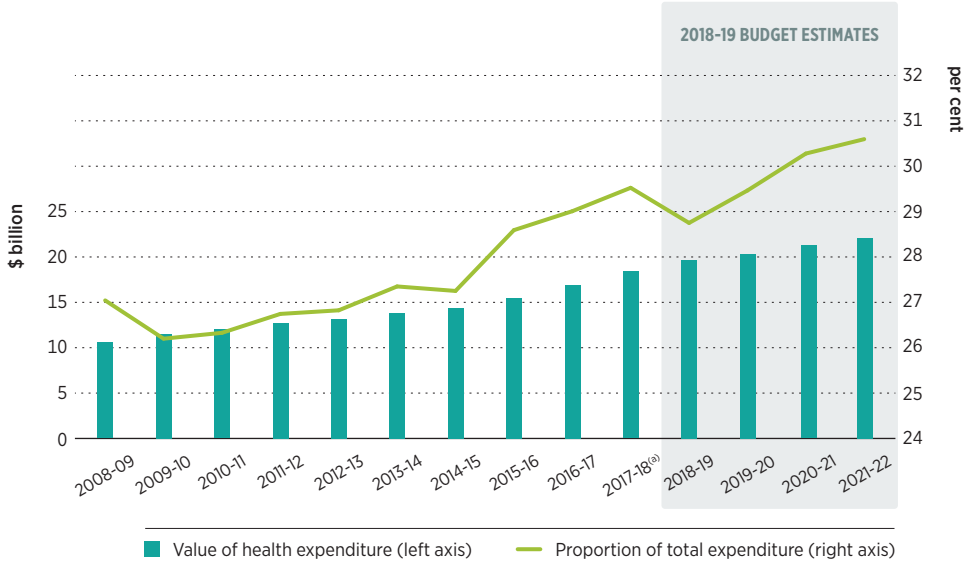
(b) 'Other ' is comprised of 'Economic affairs', 'Recreation, culture and religion', 'Environmental protection' and 'Not allocated by purpose'.

Source: Committee calculations based on: Department of Treasury and Finance, *2018-19 Budget Consolidated General Government Expenses* (2018)

Figure 4.5 shows that health spending in Victoria has steadily increased over the last ten years, increasing by an annual average growth rate of 6 per cent. According to this year's Budget, spending on health will increase to just over 30 per cent of the expenditure total by the end of the forward estimates period in 2021-22, compared to 27 per cent ten years ago.[192]

192 Department of Treasury and Finance, *Historical Financial Tables – Operating Expense by Classification of the Functions of Government* (2018). Available at <https://www.dtf.vic.gov.au/state-financial-data-sets/aggregate-financial-statements>, viewed 18 July 2018

Figure 4.5 Health expenditure 2008-09 to 2021-22 (includes 2018-19 Budget estimate)



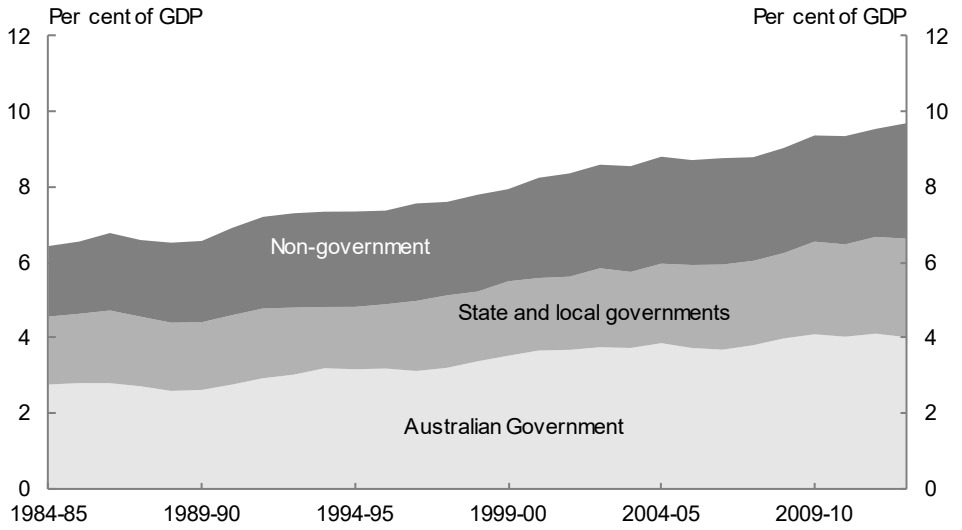
(a) The 2017-18 figure is a revised estimate.

Source: Committee calculations based on Department of Treasury and Finance, *Historical Financial Tables – Operating Expense by Classification of the Functions of Government*

Growth in health spending—national and international trends

The growth in spending on health in Victoria mirrors growth nationally and internationally. The historical growth in spending by government and non-government sources (such as individuals and private health insurers) is depicted in the Commonwealth Government's *2015 Intergenerational Report*, presented below in Figure 4.6.

Figure 4.6 Historical health spending in Australia

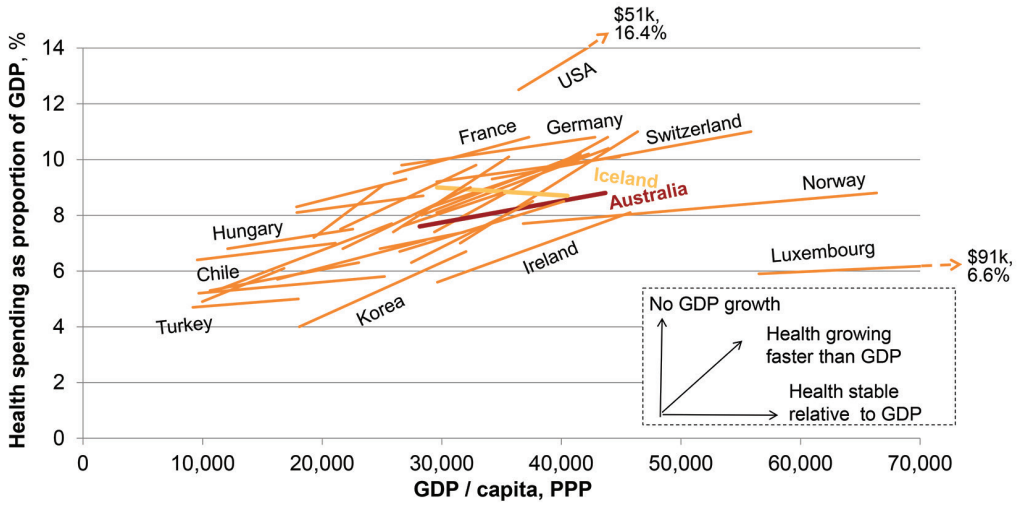


Source: Australian Government, *2015 Intergenerational Report: Australia in 2055* (2015), p.59; Australian Institute of Health and Welfare health spending database

Growth in health expenditure has occurred across comparable Organisation for Economic Co-operation and Development (OECD) countries. Among members of the OECD, health is the second largest government spending area, with expenditure consistently rising at a higher rate than economic growth.[193]

OECD data highlights the similarity of trends in Australia to other OECD countries. Figure 4.7 shows that, in general, as economies grew, countries typically spent more on health, noting there was some reduction to this trend as a consequence of the global financial crisis.

Figure 4.7 Health spending and GDP, 2000 to 2012



Note: PPP stands for Purchasing Power Parities and adjusts health expenditure for differences in price levels between countries.

Source: *Intergenerational inequality*, Presentation by the Grattan Institute to the Australasian Council of Public Accounts Committees, 6 April 2018

In 2015, the OECD noted that these countries face similar issues in determining how to manage the impact of increased expenditure on health:

> Most governments in OECD countries are currently faced with consolidation pressures and the need to create room for additional spending without jeopardizing the sustainability of their fiscal position or the stability of the economy (fiscal space). In this context, many countries face the challenging task of financing more health expenditure while trying to meet their fiscal objectives.[194]

The OECD's June 2018 *Spending on Health: latest trends* reported that health expenditure in 2016 grew by its fastest rate in seven years, with further growth expected for 2017. OECD spending on health care increased by 3.4 per cent on average in 2016, the highest rate since 2009, although still below pre-crisis levels.[195]

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193 Organisation for Economic Co-operation and Development, 'Special feature: The fiscal sustainability challenge of health systems', Government at a Glance 2015 (2015), p.100

194 ibid.

195 Organisation for Economic Co-operation and Development,, *Spending on health: latest trends* (2018), June 2018, p.1

FINDING 33: Health expenditure accounts for a growing proportion of Victoria's budget. This follows the trend seen in other Australian jurisdictions and Organisation for Economic Co-operation and Development countries. The ongoing growth in health expenditure presents a risk to the sustainability of future budgets.

Reasons for the growth in health expenditure in Victoria

In the context of health spending, the Treasurer and Secretary of the Department of Treasury and Finance were asked at the budget estimates hearing what long-term modelling (that is, beyond four years) the Department undertakes and what the modelling shows. The Committee was advised that:

> DTF [Department of treasury and Finance] undertakes long-term modelling as required in providing advice to Government on a range of policy matters, with input from relevant portfolio agencies. This includes assessing the medium-term economic and fiscal impact of Government policies and proposals, and assessing underlying long-term cost drivers in particular service delivery areas as necessary, including in the area of health.
>
> This analysis is conducted from time to time in the provision of policy advice to Government, and helps to inform medium term projections and forward planning of the State's operating and asset position.[196]

No further details were provided to the Committee on what the modelling shows, such as the underlying cost drivers in Victorian health services. Modelling undertaken by the Department of Treasury and Finance to inform current and future health expenditure in Victoria is not publicly released.

The Committee also asked the Treasurer to discuss the implications of an ageing population for the health budget and what the strategy is for the next 10 to 20 years. The Treasurer advised the Committee:

> … the state's total output for health and also for human services is expected to be about $25 billion in 2018–19. That is 7.7 per cent more than the 2017–18 budget, so you can see there is a factor for both population growth and of course demand growth, and recognition that as the population ages there will be greater demand for services that the state provides.[197]

FINDING 34: Modelling undertaken by the Department of Treasury and Finance to inform current and future health expenditure in Victoria is not publicly released.

The 2017 Victorian Department of Health and Human Services' *Statewide Design, Service and Infrastructure Plan for Victoria's Health System 2017-2037* recognises growing pressures in the health area, particularly due to:

- population growth and ageing
- rising rates of chronic disease
- more people surviving from typically fatal conditions

196 Hon Tim Pallas MP, Treasurer, *Response to the Committee's 2018-19 Budget Estimates Questions on Notice*, received 3 July 2018, question 12

197 Hon Tim Pallas MP, Treasurer, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.28

- rising costs
- increased community expectations.

The plan identifies five priorities over the next 20 years, a number of which are particularly relevant for budgetary long term health planning.[198] For example, the priority of 'investing in the future - the next generation of healthcare', recognises that while health technology improves quality and outcomes, it 'is also the major driver of the increasing cost of healthcare'.[199] To manage this, the plan outlines the goal of stronger governance and coordination to ensure investments are made wisely, including working with other jurisdictions for a national approach to health technology investment and ensuring value for money.

The experience across other jurisdictions suggests that population growth and ageing would only explain a small component of the growth in Victoria's health expenditure. For example:

- The Australian Institute of Health and Welfare identified various factors that have contributed to the growth in health expenditure in its 2016 publication, *25 years of Health Expenditure in Australia 1989–90 to 2013–14*. The report noted:

  > It is likely that population factors such as population growth and population ageing have had an important influence on the demand for health goods and services. The development of new technologies and community expectations regarding their availability and use also appear to have a large impact on this demand. Increased demand for health goods and services does not automatically translate into increased health expenditure though. The information presented in this report suggests that a combination of factors, including increased wealth and government policies, have determined if, how and when demand for services are met and, ultimately, how much is spent.[200]

- In considering health budgets into the long-term future, the *2016-17 NSW Intergenerational Report* prepared by NSW Treasury highlights the significant role of non-demographic factors in driving the upward trend, separate from the ageing population. In particular, new services and technologies are expected to substantially increase demand and subsequent health spending:

  > Health services are by far the largest contributor to projected expense growth. We expect growth of 6.3 per cent a year in health costs over the next decade and 6.0 per cent over the long term, mostly in the hospital system. As a result, health expenses would increase from around 28 per cent of the State's budget today to 36 per cent in 2056.

198 Victorian Government, *Statewide Design, Service and Infrastructure Plan for Victoria's Health System 2017-2037* (2017), p.9

199 ibid. p.78

200 Australian Institute of Health and Welfare, *25 years of health expenditure in Australia 1989–90 to 2013–14* (2016), p.vi

Interestingly, the largest driver of rising health costs is likely to be non-demographic. The Grattan Institute estimated that around 60 per cent of the roughly $41 billion increase in Australian governments' annual health expenditure between 2003 and 2013 was for "new, improved services and more services per person" with the remainder due to population growth, inflation and ageing. It is this trend that is expected to drive health growth. Ageing is also a significant factor, contributing around 10 per cent of health cost growth.

Advances in health technology, from genomics to online apps, are likely to be a big part of these new services. New health technologies, although often expensive, radically improve our quality of life. Other innovations bring benefits such as shorter hospital stays and safer treatments. But as unit costs decline, demand often increases, so aggregate spending can still rise. For example, in the US, increased use of medical technology is contributing 40-50 per cent of yearly increases in health spending.[201]

- The Commonwealth Government's *Intergenerational Report* also identified that from a federal perspective, non-demographic factors are likely to account for approximately 80 per cent of projected increases to health expenditure into the future, with demographic factors such as ageing contributing ten per cent. The non-demographic factors included: higher incomes leading to the consumption of more and improved health care; wage growth in health industries such as hospitals and medical services; increases in disease rates, particularly chronic health conditions; and technological changes, such as new, more expensive or more efficient treatments, which increase demand.[202]
- The Productivity Commission's research paper, *An Ageing Australia: Preparing for the Future*, provided examples where improved technology led to growth in spending, for example, increased prescriptions of statin drugs (for cholesterol) from 2 million in 1992-93 to 21 million in 2011-12 cost approximately $1.1 billion in government funding.[203]
- The United Kingdom Office for Budget Responsibility (OBR) notes that the impact of ageing on health spending has been relatively small historically.[204] Relative health care costs and the effect of technological advances are the main drivers. The rise of chronic conditions is also expected to be an important factor. The OBR concluded that health spending in the United Kingdom will continue to rise as a share of GDP in the future and this represents a key risk to the sustainability of the United Kingdom public finances.
- The United States Congressional Budget Office has found that the federal government's spending of major health care programs is projected to rise substantially over the next 30 years.[205] Spending on major health care

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201 NSW Treasury, *Budget Paper No. 5 Intergenerational Report* (2016), p.10

202 Australian Government, *2015 Intergenerational Report: Australian in 2055* (2015), pp.61-2

203 Productivity Commission, *An Ageing Australia: Preparing for the Future* (2013), p.130

204 United Kingdom Office of Budget Responsibility, *Fiscal sustainability analytic paper: fiscal sustainability and public spending on health* (2016), pp.12, 13, 35

205 United States Congressional Budget Office (CBO), *CBO's analyses and projections of federal health care costs,* paper presented by CBO Senior Adviser Mr Robert Sunshine at OECD 10th Annual meeting of the OECD network of Parliamentary Budget Officials and Independent Fiscal Institutions, 3 July 2018

programs would account for 40 per cent of federal non-interest spending in 2048, compared to 27 per cent today. Two factors explain the projected growth in spending on major health care programs in the United States: ageing and rising health care costs per person with new technologies and new treatments becoming available.[206]

FINDING 35: Demographic factors such as population growth and ageing account for only a small proportion of the growth in health expenditure in Victoria and other jurisdictions. The main cost drivers include non-demographic factors such as new technologies and treatments, rising incomes and increased consumption of healthcare and rising rates of chronic disease.

Health expenditure—benefits

The Committee notes that health is identified as a superior good, in that as incomes and economies grow, health spending rises at a faster rate because people are willing to spend a larger proportion of income on improving their health outcomes. Consequently there have been improvements in various health indicators as spending in Australia has increased over time, as illustrated in Figure 4.8.

Figure 4.8 Australian Institute of Health and Welfare selected health indicators

Trend assessment for selected indicators of Australia's health

Health status			
✓	Incidence of heart attacks	✗	Hospitalisation for injury and poisoning
~	Incidence of end-stage kidney disease	✓	Severe or profound core activity limitation
	Incidence of selected cancers:		**Life expectancy:**
~	Lung cancer	✓	Males
✓	Bowel cancer	✓	Females
Determinants of health			
✓	Adults who are daily smokers	✗	People who are overweight and obese
✓	Adults at risk of long-term harm from alcohol	✓	Educational attainment
Health system			
	Immunisation rates (children):	~	Potentially preventable hospitalisations
✓	1 year	✓	Potentially avoidable deaths
~	2 years	✗	Waiting time for elective surgery
✓	5 years	~	Waiting time for emergency department care

✓ Favourable 10-year trend ✗ Unfavourable 10-year trend ~ No change over 10 years

Source: Australian Institute of Health and Welfare, *Australia's Health 2018: in brief* (2018), p.6

The Australian Institute of Health and Welfare recently reported that life expectancy has increased greatly over the last century.[207] Australians born now are expected to live about 33 years longer than people who were born in 1890. This places us in the top third of OECD countries for life expectancy. Australians can also expect to live these extra years in relatively good health; that is, without the health consequences of disease or injury.

206 ibid.

207 Australian Institute of Health and Welfare, *Australian's health 2018: in brief* (2018), p.10

As such, the Committee believes there is substantial value in governments making policy and budget expenditure decisions in this area with the intention of improving quality, accessibility and outcomes in health care.

FINDING 36: Increased health expenditure has contributed to Australians living longer, healthier lives.

Health expenditure—risks and challenges

Health expenditure is the largest component of the Victorian budget and a growing area of expenditure. While it is also a topic of significant public interest, there is a lack of information in the public domain on budget projections of health expenditure and cost pressures on the health budget. There are implications for future spending on public services and infrastructure other than health such as education and public safety, together with the overall sustainability of the Victorian budget.

In contrast, the New South Wales and Commonwealth Governments prepare intergenerational reports every five years. Such reports set out projections made by their Treasury departments on the economic and fiscal position of the jurisdiction, including financial pressures over the longer term and future opportunities. The reports are based on the principle of intergenerational equity, that is, actions benefitting current generations should not compromise future generations. Under the current *Financial Management Act 1994* (Vic), one of the principles of sound financial management set out in Section 23D requires the Victorian Government to 'ensure that its policy decisions have regard to their financial effects on future generations'.[208]

In its *Report on the 2017-18 Budget Estimate*, the Committee recommended that Victoria adopt a process of intergenerational reporting to assist identify and prepare for challenges that will likely be faced in the long term across all budget areas. The Committee considered that such reports 'provide useful information that can inform and shape important areas of public policy in the context of a rapidly changing service delivery environment'.[209] This recommendation was not supported by the Government. The response to the recommendation stated that long-term modelling currently informs forecasts contained in budget papers and that '[t]he decision to publish long-term forecasts or an intergenerational report is a decision for government'.[210] However, the Committee notes that the community does not currently have access to the modelling that informs the forecasts in the budget papers.

208 *Financial Management Act 1994* (Vic), s.23 (1)(d)

209 Public Accounts and Estimates Committee, *Report on the 2017-2018 Budget Estimates* (2017), p.17

210 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2017-18 Budget Estimates*, tabled 30 April 2018, p.2

The Committee reiterates the benefits of intergenerational reporting that were discussed when making its original recommendation in the *Report on the 2017-18 Budget Estimates*. This included:

- the annual budget and forward estimates process is placed within a broader context
- community understanding is enhanced including the basis for spending cuts or need to increase revenue
- intergenerational equity issues are brought to the forefront and policy horizons are lengthened beyond the election term.

FINDING 37: Intergenerational reports are produced by the Commonwealth and New South Wales Treasury departments every five years. Such reports inform sound financial management and the principle of intergenerational equity. Such reports also inform the community and facilitate public scrutiny of government spending.

RECOMMENDATION 3: The Public Accounts and Estimates Committee consider undertaking an own motion inquiry into intergenerational reporting in the 59th Parliament.

4.4.2 Homelessness

The 2018-19 Budget allocates $574.8 million for the Department of Health and Human Services' *Housing Assistance* output, which includes:

> ... the provision of homelessness services, crisis and transitional accommodation and long-term adequate, affordable and accessible housing assistance, coordinated with support services where required, home renovation assistance and the management of the home loan portfolio ...[211]

The Australia Bureau of Statistics defines a person as homeless if their current living arrangement:

- is in a dwelling that is inadequate; or
- has no tenure, or if their initial tenure is short and not extendable; or
- does not allow then to have control of or, access to space for social relations.[212]

It is estimated that 13 per cent of Australians will experience homelessness during their lifetime.[213] According to the latest Census data taken in 2016, the rate of estimated homeless persons in Victoria was 41.9 homeless persons per 10,000 persons.[214] Figure 4.9 shows the actual number of homeless persons in Victoria and Australia recorded over the last four censuses. In Victoria, the

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211 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.253

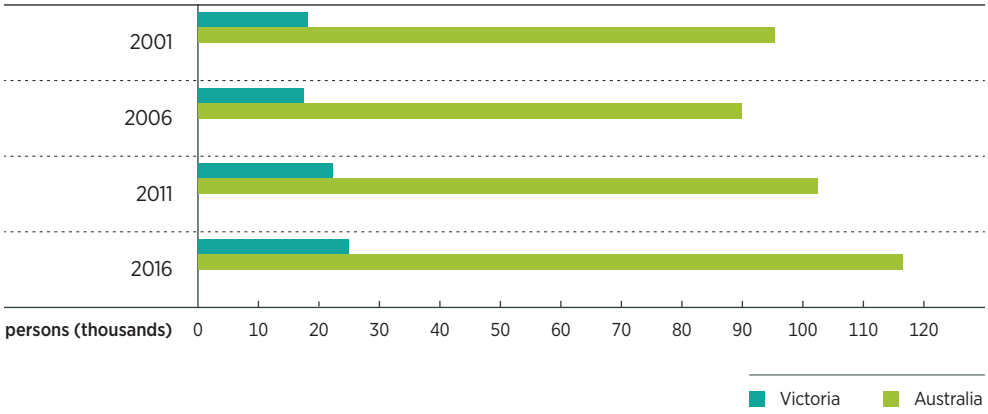
212 Australian Bureau of Statistics, *Information Paper – A Statistical Definition of Homelessness* (2012), p.7

213 Guy Johnson, *Homelessness in Victoria: Issues and observations*, speech delivered at the Parliamentary Library, Parliament of Victoria, Melbourne, 26 July 2018

214 Australian Bureau of Statistics, *Cat. No. 2049.0 - Census of Population and Housing: Estimating homelessness* (2016). Table 1.2, available at <https://www.abs.gov.au/ausstats/abs@.nsf/mf/2049.0>, viewed 3 July 2018.

number of homeless people increased by 36.7 per cent from 18,154 in 2001 to 24,817 in 2016, and Victoria's proportion of the national figure grew from 19 per cent to 21.3 per cent over the same time.[215]

Figure 4.9 **Number of homeless persons 2001, 2006, 2011 and 2016, Australia and Victoria**



Source: Committee calculations based on Australia Bureau of Statistics, *Cat. No. 2049.0 - Census of Population and Housing: Estimating homelessness* (2016), table 1.1. Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/2049.02016?OpenDocument>, viewed 4 July 2018

In Australia it is estimated that men make up 60 per cent of the homeless population and 40 per cent of persons accessing homelessness services. Women make up 40 per cent of the homeless population and 60 per cent of persons accessing homelessness services.[216]

The Victorian Government's *Homelessness and Rough Sleeping Action Plan*—a key mechanism for homelessness funding—estimates that on any given night 1,100 people sleep rough throughout Victoria.[217]

On 19 June 2018, the City of Melbourne undertook its biannual *StreetCount*, which 'collects information about people sleeping rough within parks, on streets and in other locations across inner Melbourne'.[218] Findings from *StreetCount 2018*[219] show 392 persons were counted sleeping rough across five inner Melbourne council areas.[220]

FINDING 38: The number of homeless people in Victoria increased by 36.7 per cent, from 18,154 people to 24,817 people, between 2001 and 2016. The Victorian Government estimates that on any given night, 1,100 people may be sleeping rough throughout Victoria, and the City of Melbourne estimates just under 400 people were routinely sleeping rough across the five inner Melbourne council areas.

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215 Australian Bureau of Statistics, *Cat. No. 2049.0 - Census of Population and Housing: Estimating homelessness* (2016). Table 1.1, available at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/2049.02016?OpenDocument>, viewed 4 July 2018

216 Guy Johnson, *Homelessness in Victoria: Issues and observations*, speech delivered at the Parliamentary Library, Parliament of Victoria, Melbourne, 26 July 2018

217 Department of Health and Human Services, *Victoria's homelessness and rough sleeping action plan* (2016), p.8

218 City of Melbourne, *StreetCount* (2018). Available at <https://www.melbourne.vic.gov.au/community/health-support-services/social-support/Pages/streetcount.aspx>, viewed 4 July 2018

219 ibid.

220 279 of the 392 were recorded in the City of Melbourne. In the City of Melbourne, 79 per cent of persons sleeping rough were male and 21 per cent were female, 33 per cent of persons were sleeping on the street, 12 per cent in parks and 48 per cent in other locations.

National Housing and Homelessness Agreement

The 2017-18 Commonwealth Budget announced that funding under the *National Affordable Housing Agreement* (NAHA) and *National Partnership Agreement on Homelessness* (NPAH) would be combined, and a new *National Housing and Homelessness Agreement* (NHHA) would come into effect from 1 July 2018. Table 4.3 outlines the key differences between the two agreements.

Table 4.3 Differences between the NAHA/NPAH and NHHA

Before 2018-19	2018-19 and beyond
National Affordable Housing Specific Purpose Payment (NAH SPP) • Ongoing funding • Indexed annually	*National Housing and Homelessness Agreement* • Combines funding for NAH SPP and *National Partnership Agreement on Homelessness* • Funding linked to outcomes—including aggregate supply and planning and zoning reforms • Indexed annually • Homelessness funding to be matched by States and Territories
N*ational Partnership Agreement on Homelessness* • Terminated 30 June 2018 • Not indexed • Matching funding by States and Territories	

Source: Australian Government, *A New National Housing and Homelessness Agreement* (2017). Available at <https://www.budget.gov.au/2017-18/content/glossies/factsheets/download/FS_17_Housing_Affordability.pdf>, viewed 4 July 2018

In terms of meeting benchmarks set under the expiring NAHA, data from the Council of Australian Governments (COAG) shows 'that three of the four key benchmarks identified in the NAHA have not been met'.[221] The benchmark related to homelessness—From 2006 to 2013, a 7 per cent reduction nationally in the number of homeless Australians—was not only unmet, but regressed.[222]

In March 2018, the Commonwealth Government amended the *Federal Financial Relations Act 2009* (Cth), requiring that states and territories meet several conditions to be eligible to receive funding under the proposed NHHA. The Commonwealth Government has outlined that funding will be provided on the condition that states and territories:

- sign up to the Agreement and a bilateral schedule with the Commonwealth;
- have publically available housing and homelessness strategies;
- contribute to improving data and transparent reporting; and
- match homelessness funding in with current arrangements under the NPAH.[223]

221 Parliament of Australia, *Social housing and homelessness* <https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201718/Social_housing_and_homelessness>, viewed 3 July 2018

222 Department of Prime Minister and Cabinet, *Council of Australian Governments Report on Performance* (2016), p.12

223 Australian Government, *National Housing and Homelessness Agreement Fact Sheet* (2018). Available at <https://www.static.treasury.gov.au/uploads/sites/1/2018/03/National-Housing-and-Homelessness-Agreement.pdf>, viewed 24 July 2018

As discussed in Chapter 2 on revenue, Victoria continues to negotiate with the Commonwealth and other states on the primary and supplementary agreements—making the 'provision of Commonwealth funding for 2018-19 subject to the outcome of these negotiations'.[224]

FINDING 39: The current uncertainty associated with Commonwealth funding agreements presents a risk for funding and service delivery to people experiencing homelessness.

Funding of programs and initiatives

As part of this inquiry, the Department of Health and Human Services was asked to provide information on the status of programs and initiatives announced over recent years in relation to homelessness. The Committee requested specific information regarding the amount of funding that has been spent, as well as anticipated expenditure for 2018-19. The Committee had difficulties in reconciling the funding commitments and expenditure based on information provided by the Department.

The *Family Violence Housing Blitz* initiative was first announced in the 2016-17 Budget, and was allocated $152 million to expand services for people in crisis. At the time, the funding was broken down into:

- $25 million over two years for accommodation for the homeless,
- $21 million over two years to redevelop existing refuges and provide 24 hour staffing at up to six refuges,
- $16 million to provide rental assistance,
- $50 million for rapid housing assistance and for the community housing sector to deliver 184 new social housing properties and head leasing for up to 124 properties, and
- $40 million over two years to provide flexible tailored responses that meet individual needs of victims of family violence.[225]

The Department reported that the initiative is due to finish in 2018-19. The Committee found that the amount of funding spent at 31 March 2017 was $78.64 million, while anticipated expenditure for 2018-19 was $12.07 million.[226] This combined spending figure of $90.71 million falls short of the $152 million initially allocated in the 2016-17 Budget. The Committee notes that $61.29 million of the original funding allocation for this initiative appears to be unspent and has not been reported on by the Department.

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224 Department of Treasury and Finance, *Budget Paper No.2: Strategy and Outlook* (2018), p.60

225 Department of Health and Human Services, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 15 May 2018, pp.51-2

226 ibid.

The *2016-17 Budget Update* provided $33.2 million for 'private rental brokerage to assist people to maintain long term accommodation in the private rental market', and is scheduled to conclude in 2018-19.[227] The Department reported that the amount spent at 31 March 2017 is $5.4 million, while the anticipated expenditure for 2018-19 is $2.5 million. This equals $7.9 million, representing just under 24 per cent of the funding that was originally allocated, leaving $25.3 million unspent.

The *Homes for Victorians – Victorians in need* initiative, announced in the 2017-18 Budget, provides $20 million for rooming house upgrades. The Department reported that the initiative was to run until 2017-18.[228] The amount spent at 31 March 2017 was $1.15 million, while the anticipated expenditure for 2018-19 is $9.18 million. This combined figure of $10.33 million is just over half of the originally allocated $20 million, leaving $9.67 million of the allocated funds reported as unspent.

The *Family Violence initiative – Housing support for family violence victims* was allocated $48 million in the 2017-18 Budget for long term housing, with the program to run in 2017-18. The Department's response to the questionnaire indicates $15.1 million was spent at 31 March 2017. No further expenditure is expected in 2018-19, leaving $32.92 million of the allocated $48 million unspent.[229]

FINDING 40: There has been an underspend in output initiatives designed to alleviate homelessness, announced over the last two years. The data provided by the Department of Health and Human Services shows that only 60 per cent of the *Family Violence Housing Blitz*, 24 per cent of the private rental brokerage, 52 per cent of the *Homes for Victorians* and 31 per cent of the housing support for family violence victims funding has been or will be expended in the originally stipulated timeframes.

In light of the increasing incidence of homelessness in Victoria, the Committee would welcome an acceleration of spending in these programs.

RECOMMENDATION 4: The Department of Health and Human Services investigate the reasons for the under expenditure in the suite of programs and initiatives designed to alleviate homelessness. The findings be published on the department's website.

4.4.3 Consultants, contractors and labour hire

Definitions of consultants and contractors

The Department of Treasury and Finance provides guidance on the definition of consultants and contractors through the *Guidance Note to Financial Reporting Direction (FRD) 22H*. The guidance defines a contractor as:

> ... an individual or organisation that is formally engaged to provide works or services for or on behalf of an entity. The definition does not include casual, fixed-term or temporary employees employed by the entity.

227 ibid., p.52
228 ibid., p.53
229 ibid., p.54

The guidance defines a consultant as:

> ... a particular type of contractor that is engaged primarily to perform a discrete task for an entity that facilitates decision making through:
>
> - provision of expert analysis and advice; and/or
> - development of a written report or other intellectual output.

The guidance suggests that some judgement may be required by departments in clearly distinguishing between a consultant and contractor. To ensure correct classification of a service provider, the primary determinant should be the intended purpose of the engagement. Accordingly, the guidance advises that 'the main factor that distinguishes a consultant from other types of contractors is the predominantly advisory nature of the work'.[230]

Most departments indicated to the Committee that they used the Department of Treasury and Finance guidance in defining contractors and consultants.

Definitions of labour hire used by departments

Labour hire tends to be defined by the respective department or agency. The general definition adhered to by departments suggests that labour hire resources are an employment arrangement whereby an external organisation provides short-term staffing services to a department; they are generally not classified as employees and do not receive employment entitlements.[231]

Departmental definitions for labour hire are not applied as uniformly as definitions for contractors and consultants. When asked by the Committee how the departments defined labour hire, some tended to rely on arbitrary definitions and procedures.

Most departments describe labour hire as contractors or individuals employed by an external recruitment agency to provide work and services. However, the source of these definitions can vary. The *Guidance Note to FRD 22H* states:

> For the purpose of FRD 22H, the details of contractors to be maintained include arrangements where an individual or organisation is engaged to assist the entity to carry out its **defined activities or core operational functions**. This would normally be expected to include, but not restricted to:
>
> (1) Labour hire either through a labour hire firm or through a direct engagement; and
>
> (2) Outsourced contracts. Examples may include outsourced IT, HR/payroll services and invoice processing services etc.[232]

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230 Department of Treasury and Finance, *Guidance note to Financial Reporting Direction (FRD) 22H* (undated), p.1

231 See responses from departments to question 20 (b) of the Committe's *2018-19 Budget Estimates General Questionnaire*

232 Department of Treasury and Finance, *Guidance note to Financial Reporting Direction (FRD) 22H* (undated), p.5 (emphasis in original)

The Committee found:

- The Department of Education and Training 'defines consultancy, contractor and labour hire in accordance with Financial Reporting Direction (FRD) 22H'.[233]
- The Department of Premier and Cabinet uses guidelines provided by the Victorian Government Purchasing Board and FRD 22H, and uses the term 'Temporary Agency Staff', in place of labour hire.[234]
- The Department of Health and Human Services derives the term labour hire from the Staffing Services State Purchase Contract.[235]

The responses from the departments also shows that the status of labour hire individuals and Victorian Public Sector (VPS) employment entitlements can vary. The Department of Health and Human Services suggests that labour hire staff can 'backfill or undertake a VPS role'[236], while the Department of Economic Development, Jobs, Transport and Resources, in its response, outlined that labour hire individuals 'are not classified as VPS employees and do not receive VPS employment entitlements'.[237]

FINDING 41: There is little uniformity across departments in defining what constitutes labour hire and applying labour hire guidelines.

RECOMMENDATION 5: The Department of Treasury and Finance introduce guidelines to increase uniformity in defining and applying labour hire requirements clearly across all departments.

Use of contractors and consultants where there are gaps in capability and capacity

Most departments generally hire consultants and contractors when they experience gaps in capability and capacity. The Committee found these gaps can cover a broad range of areas.

The Department of Economic Development, Jobs, Transport and Resources identified leadership capability, people management and proficiency and efficiency capability as the main gaps in the capabilities. Specifically, it identified lawyers, stakeholder relations professionals, and transport-related professionals in signalling and senior project engineering as the disciplines that have proven more challenging to fill.[238]

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233 Department of Education and Training, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 8 May 2018, p.41

234 Department of Premier and Cabinet, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 11 May 2018, pp.29-30

235 Department of Health and Human Services, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 15 May 2018, p.46

236 ibid.

237 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 5 May 2018, p.52

238 ibid.

The Department of Environment, Land, Water and Planning identified project work and administrative and business support as the areas it 'would' outsource.[239]

The Department of Justice and Regulation reported gaps in its capability related to short term projects and its ability to deliver against expectations—specifically in administration, policy development, financial services and project management.[240]

The Department of Parliamentary Services advised that external service providers are engaged for specialist services not available in the Department, such as auditing and assurance services and legal advice.[241]

Policy development and advice were identified as gaps by the Department of Treasury and Finance.[242]

While the Committee was informed of the capability and capacity gaps specific to each department, the majority of departments also identified information technology (IT) as another key area of deficit.

Information technology capacity and capability in departments

The Committee notes that out of the nine departments who received questionnaires, six reported that they experienced gaps in capability and capacity regarding IT services. They are:

- Court Services Victoria
- Department of Environment, Land, Water and Planning
- Department of Education and Training
- Department of Justice and Regulation
- Department of Premier and Cabinet
- Department of Parliamentary Services

The Department of Environment, Land, Water and Planning identified IT projects and services as business support areas it would be likely to outsource. Consultants were engaged largely to provide expert advice that could not reasonably be expected to reside in-house.[243] The Department of Education and Training identified hiring contractors in IT to meet specific and specialist skill set needs. The Department also noted the requirement on occasions to pay market rates above VPS levels.[244] The Department of Justice and Regulation

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239 Department of Environment, Land, Water and Planning, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 11 May 2018, p.34

240 Department of Justice and Regulation, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 10 May 2018, p.58

241 Department of Parliamentary Services, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 2 May 2018, p.22

242 Department of Treasury and Finance, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 9 May 2018, p.30

243 Department of Environment, Land, Water and Planning, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 11 May 2018, p.34

244 Department of Education and Training, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 08 May 2018, p.41

identified gaps in its capability relating to short-term projects and its ability to deliver against expectations. The Department singled out the IT skills of software developers, network engineers and managers as the main areas of spending.[245]

The Department of Premier and Cabinet advised that the reliance on external service providers within the IT field is not uncommon due to the competitive salary market in the sector.[246] The Department identified specific gaps in capability and capacity following the launch of the *Cyber Security Strategy - Victorian Government 2016-2020*. It advised of further gaps in data analytics following the establishment of the Victorian Centre of Data Insights (VCDI).

In the *Victorian Government ICT Dashboard* report, the Victorian Auditor-General noted:

> ... information and communications technology (ICT) is integral to how governments manage information and deliver programs and services. ICT projects need to be diligently monitored and successfully implemented, so that services to the government, public sector and community can be efficient and effective.[247]

The gaps identified to the Committee by the departments reinforce a broader concern regarding inadequacies and failures of IT projects carried out in the public sector—often involving external service providers. Examples include:

- The Victorian Auditor-General's November 2016 *Financial Systems Controls Report: 2015-16* which outlined that while '... entities were able to rely on their IT control environments', there are '... a significant number of IT control deficiencies, most of which [are] rated as medium- and high-risk issues'.[248]
- Phase one and two of the Victorian Auditor General's *Digital Dashboard: Status Review of ICT Projects and Initiatives* which found that government departments find 'planning and implementing ICT projects particularly complex and difficult.'[249] None of the ICT projects considered in the audit were completed or are expected to be completed as initially budgeted.[250]

The *Information Technology Strategy: Victorian Government 2016-20* gives direction and targets for public sector information management and technology over a five-year time frame. One of the four priorities of the strategy is to 'lift the capability of government employees to implement ICT solutions that are innovative, contemporary and beneficial'.[251] The strategy sets out an 'order of consideration' for ICT investments, as shown in Figure 4.10.

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245 Department of Justice and Regulation, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 10 May 2018, p.58

246 Department of Premier and Cabinet, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 11 May 2018, p.29

247 Victorian Auditor-General's Office, *The Victorian Government ICT Dashboard* (2018), p.7

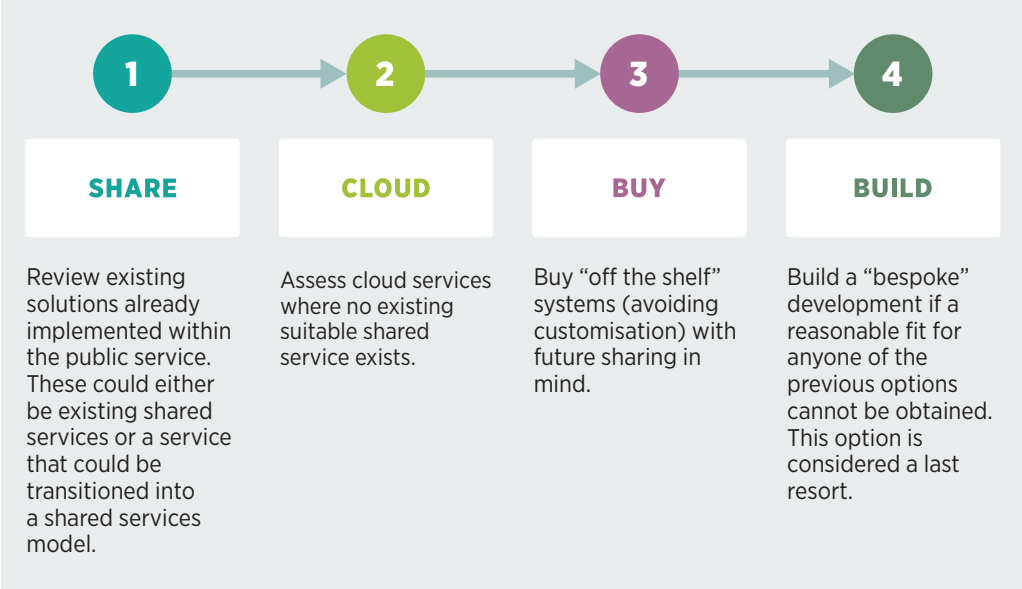
248 Victorian Auditor-General's Office, *Financial System Control Report: 2015-16* (2016), p.5

249 Victorian Auditor General's Office, *Digital Dashboard: Statues Review of ICT Projects and Initiatives – Phase 2* (2016), p.34

250 ibid., p.7

251 Victorian Auditor-General's Office, *The Victorian Government ICT Dashboard* (2018), p.16

Figure 4.10 Order of consideration for ICT projects



Source: Department of Premier and Cabinet, *Information Technology Strategy Victorian Government 2016-20* (2016), p.11

The responses received by the Committee suggest that departments continue to rely on external service providers, rather than building internal IT capacity, which is not in the spirit of the Victorian *Information Technology Strategy*.

FINDING 42: A gap in capability and capacity regarding information technology is present across most departments. Departments are paying contractors and consultants often at above market rates to access these specialised information technology skills. This represents a missed opportunity to enhance in house information technology expertise.

Risks

While there are tangible benefits in engaging external service providers—such as access to specialist skills, ability to manage variations in workload and agility in responding to changes in business needs—responses to the Committee's questionnaire identified several risks, including:

- Court Services Victoria reported risks regarding insurance, including product liability and professional indemnity, confidentiality concerns, and performance and reporting standards under FRD 22H.[252]
- The Department of Economic Development, Jobs, Transport and Resources reported risks regarding allegations of inappropriate engagement of external service providers, industrial disputation and, as a consequence, reputational risk.[253]

252 Court Services Victoria, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 15 May 2018, p.28

253 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 4 May 2018, p.55

- The Department of Environment, Land, Water and Planning has identified risks regarding allegations of inappropriate engagements, labour hire costs exceeding costs for the employment of staff and potential quality issues with the service provided.[254]
- The Department of Education and Training reported risks relating to higher costs and the potential erosion of internal capability.[255]
- The Department of Health and Human Services reported risks regarding external service providers being unable to meet required specifications, as well as issues with contractors experiencing financial difficulties and the scope of requirements changing during service delivery.[256]
- The Department of Justice and Regulation reported risks regarding working conditions, in that contractors are engaged under different working conditions to departmental employees. Prolonged engagements may pose a risk to the Department where contractors may feel they are entitled to the working conditions and entitlements afforded to employees. The Department further identified risks regarding extensive contracting and its potentially detrimental impact on developing a sustainable and capable workforce. Contract management and increased costs were also reported.[257]
- The Department of Treasury and Finance identified similar risks; particularly relying on external engagements, where internal resources could be redirected or long-term capacity could be built.[258]

FINDING 43: Key risks in the engagement of contractors and consultants that have been identified by the departments are confidentiality concerns, inappropriate engagements, reputational risk, high costs and the possible erosion of internal capability.

Financial reporting

The Committee notes that in responding to the PAEC questionnaire, only one department provided the requested financial data. Specifically, the Committee received inadequate responses to part (d) of question 20—*please provide a table of consultancy expenditure for contracts over $10,000 from 1 July 2017 to 31 March 2018*. Only the Department of Parliamentary Services provided the data in response to the question. As a result, the Committee was unable to analyse the financial data regarding contractors and consultants.

FINDING 44: With the exception of the Department of Parliamentary Services, none of the departments provided the financial information that was requested by the Committee on the use of contractors and consultants.

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254 Department of Environment, Land, Water and Planning, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 11 May 2018, p.36

255 Department of Education and Training, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 8 May 2018, p.42

256 Department of Health and Human Services, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 15 May 2018, p.48

257 Department of Justice and Regulation, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 10 May 2018, pp.62-3

258 Department of Treasury and Finance, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 9 May 2018, p.32

5 Asset investment

Key findings

- Overall government infrastructure investment is forecast to rise to $13.7 billion in 2018-19. It is expected to decline over the forward estimates period, falling to $7.6 billion by 2021-22, which is just over half the 2018-19 estimated figure.
- Public private partnerships and other investment is expected to reach $5.6 billion in 2018-19. Public private partnership investment is expected to peak in 2018-19 before falling to $2.3 billion in 2021-22. More than 50 per cent of overall government infrastructure investment over 2019-20 and 2020-21 is expected to be public private partnership investment.
- The revised Australian Accounting Standards aim to improve transparency surrounding the value of assets, including assets constructed under public private partnerships. Lease arrangements including peppercorn leases are also expected to be captured at fair value.
- Previous recommendations made by the Committee over the course of this Parliament, regarding greater transparency for public private partnership project financing arrangements were not supported by the Government, but will be met to a certain extent with the incoming Australian Accounting Standards Board revisions.
- The Department of Education and Training has not undertaken detailed analysis as to why the growth in school enrolments has accelerated at a faster rate in the government sector than the non-government sector.
- The current school investment process lacks transparency as the data demonstrating the need for the location of new schools is not publicly available.
- School maintenance funding was 0.7 per cent of asset replacement value in 2017-18 and 2018-19, below the two to four per cent regarded as the typical sector benchmark. Historically, government schools in Victoria have been funded at a rate below industry standards for maintenance.
- While the total estimated investment figure for the *Metro Tunnel* project in the 2018-19 Budget is $11.0 billion, public documentation on the four works packages that comprise the project only amounts to $7.7 billion.
- The projects costs that make up the total estimated investment figure for the *Metro Tunnel* project have significantly varied since it was first announced in 2015-16. The 2018-19 budget papers state operating costs have been removed and financing costs are not included in the $11 billion total estimated investment figure.
- Works undertaken as part of and related to the *Metro Tunnel*, the *Level Crossing Removal Program* and *High Capacity Metro Trains* infrastructure projects are becoming increasingly blurred with multiple changes to the funding estimates, project scope and timing of projects. The ability to assess the outcomes of individual project components and accountability of each project owner subsequently becomes more difficult to ascertain.

- Successive State Governments have discussed the revitalisation of the Melbourne Arts Precinct for over 15 years. Further funding for the revitalisation has been announced but not included in the 2018-19 budget papers. The project is thought to require both government and philanthropic funding.

5.1 Introduction

Asset investment occurs when the Government commits expenditure to the construction or purchase of infrastructure that provide benefits to the community over the long-term. Asset investment differs from output expenditure discussed in Chapter 4, which funds the provision of ongoing goods and services used by the community.

The chapter gives an overview of the funding estimates for 2018-19 and over the forward estimates period for the three major components of government infrastructure investment. They are:

- net direct investment
- net investment through other sectors
- public private partnerships (PPPs) and other investment.

The chapter also discusses the impact of three new Australian Accounting Standards to be introduced in the 2019-20 financial statements, specifically addressing the changes in PPPs and leases.

Three areas of asset provision outlined the 2018-19 Budget that are of significant public interest and government investment are then examined. These are:

- school infrastructure
- *Metro Tunnel* project
- asset investments in Victoria's creative industries.

5.2 Government infrastructure investment

Government infrastructure investment is currently at historically high levels. The budget papers forecast that government infrastructure investment for 2018-19 will be $13.7 billion.[259]

Government infrastructure investment from 2008-09 to the end of the forward estimates period is shown in Figure 5.1.

259 Department of Treasury and Finance, *Budget Paper No.4: 2018-19 State Capital Program* (2018), p.19

The Government plans a significant increase in infrastructure investment in 2018-19, continuing the trend of a substantial increase in investment since 2016-17. Expected government infrastructure investment after 2018-19 is forecast to decline over the forward estimates, falling to $7.6 billion by 2021-22 which is just over 50 per cent (55.4 per cent) over the estimate for 2018-19.

FINDING 45: Overall government infrastructure investment is forecast to rise to $13.7 billion in 2018-19. It is expected to decline over the forward estimate period, falling to $7.6 billion by 2021-22, which is just over half the 2018-19 estimated figure.

5.3 Components of government infrastructure investment

Government infrastructure investment is made up of three major components:

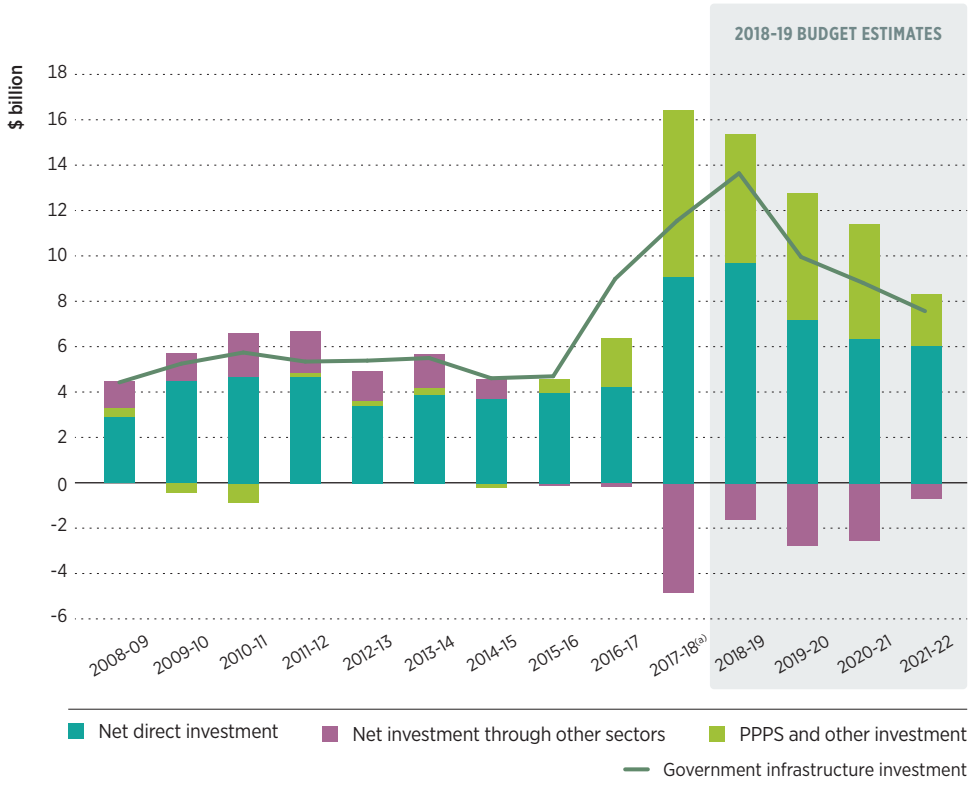
- net direct investment[260]
- net investment through other sectors[261]
- PPPs and other investment.

The following sections discuss the three major components of government infrastructure investment, which are shown in Figure 5.1.

260 This is known in the budget papers as 'net cash flows from investments in non-financial assets'.

261 This is known in the budget papers as 'net cash flows from investments in financial assets for policy purposes'. The combination of net direct investment and net investment through other sectors is known in the budget papers as 'total net investment in fixed assets'.

Figure 5.1 Government infrastructure investment and its components, 2008-09 to 2021-22



(a) The 2017-18 figure is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Cash Flow Statement – General Government Sector* (2018)

5.3.1 Net direct investment

Net direct investment occurs when the Government manages the construction or purchase of the asset, with a Government department taking ownership of the asset once it is complete. Cash received through the sale of existing assets offsets the cost of direct asset expenditure. An example of this type of investment is the *Metropolitan Network Modernisation Program*, which is comprised of 'a range of network improvements, such as station works, power, signalling and other infrastructure upgrades and future-proofing works'.[262] The program is managed through the Department of Economic Development, Jobs, Transport and Resources.

In the 2016-17 Budget, the Government had forecast that net direct investment would decrease in 2017-18 from a peak in 2016-17.[263] In 2017-18, the budget forecast that direct investment would peak in 2017-18 and begin to decrease in 2018-19.[264] Figures show that direct investment continued to grow throughout 2016-17 and

262 Department of Treasury and Finance, *Budget Paper No.4: 2018-19 State Capital Program* (2018), p.31

263 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.9; Department of Treasury and Finance, *2016-17 Budget Update* (2016), p.36

264 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.10

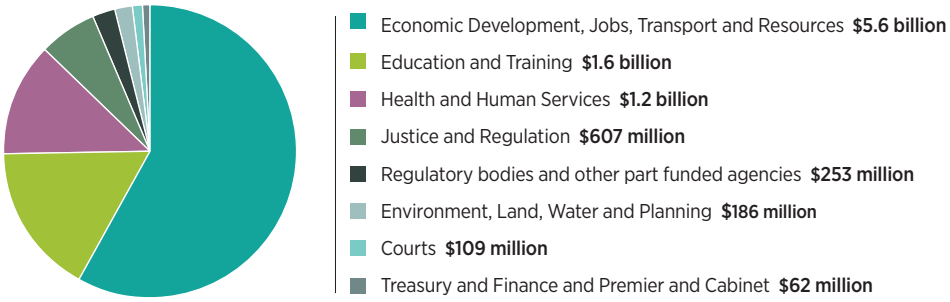
over the revised 2017-18 estimate and is now expected to peak in 2018-19, dropping over the current forward estimates period. Net direct investment is forecast to reach $9.7 billion in 2018-19 and drop to $6.1 billion in 2021-22.[265]

FINDING 46: Net direct investment in the general government sector is expected to increase to $9.7 billion in 2018-19 before falling over the forward estimates period. While estimates for net direct investment over the last two budgets have been expected to peak over the current budget year and fall over the forward estimates period, this has not occurred. This pattern has been apparent over the last three budget years.

Direct asset investment by department

Figure 5.2 shows the amount of direct asset investment estimated over 2018-19 by each department. The Department of Economic Development, Jobs, Transport and Resources has the greatest level of asset investment spending for 2018-19 at $5.6 billion, which is 58 per cent of the total. The Department of Education and Training follows at $1.6 billion for 2018-19 and the Department of Health and Human Services is expected to spend $1.2 billion over 2018-19.

Figure 5.2 Direct asset investment by department, 2018-19[(a)]



(a) Figure will not add up due to rounding.

Source: Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.31

According to the budget papers major asset investment projects for the Department of Economic Development, Jobs, Transport and Resources announced in this year's Budget include:

- the *Suburban Roads Package* ($2.3 billion total estimated investment (TEI)) project for roads maintenance and upgrades across south eastern and northern metropolitan Melbourne
- the *Monash Freeway Upgrade – Stage 2* ($684.4 million TEI)
- the *Cranbourne-Pakenham and Sunbury line upgrades* ($539.5 million TEI) and *Shepparton Line Upgrade – Stage 2* ($312.9 million TEI) rail projects.[266]

265 Department of Treasury and Finance, *Budget Paper No.4: 2018-19 State Capital Program* (2018), p.19

266 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), pp.27-8

For the Department of Education and Training, major asset initiatives announced as part of the 2018-19 Budget include the *Schools Upgrades* project ($482.8 million TEI), *New Schools Construction* ($341.3 million TEI) and the *Land Acquisition* program, which is a $271.7 million TEI project running over 2018-19 to 2019-20.[267] These projects are discussed in detail in section 5.4.

For the Department of Health and Human Services, major asset initiatives announced for 2018-19 include the major hospital projects of the *Ballarat Base Hospital Expansion and Redevelopment* ($461.6 million TEI) and the *Victorian Heart Hospital* ($396.0 million TEI).[268]

5.3.2 Net investment through other sectors

Investment through other sectors occurs when the Government determines that an asset will be owned by a government business enterprise, normally a public non-financial corporation (PNFC) such as one of the water corporations, rather than a department. Under this arrangement the Government invests in the business enterprise, then directs the business to invest in the physical asset. An example of this type of investment is the ongoing *Waste Water Treatment Plant Upgrade* project, whereby the Government is investing in Central Highlands Region Water Corporation, which then spends on infrastructure upgrades.[269]

In 2018-19 a cash inflow of $1.6 billion is expected, increasing to over $2.5 billion for 2019-20 and 2020-21 before falling to $693 million in 2021-22.[270]

As a line item in the cash flow statement, net investment through other sectors represents cash or cash equivalents from general government sector to the PNFC sector that is spent on asset investment, less cash or cash equivalents from PNFCs to the general government sector from the sale of any assets.

The negative figures set out in Figure 5.1 for 2018-19 and over the forward estimates represent a net cash inflow to the general government sector, as opposed to expenditure on an asset investment. The figures include net advances made to the PNFC sector from the general government sector as a result of the Port of Melbourne lease transaction.[271] Table 5.1 shows the amount and proportion of the total net investment through other sectors that is comprised of the net advances including the Port of Melbourne lease transaction.

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267 ibid., p.53

268 ibid., p.86

269 Department of Treasury and Finance, *Budget Paper No.4: 2018-19 State Capital Program* (2018), p.97

270 Department of Treasury and Finance, *Consolidated Cash Flow Statement – General Government Sector* (2018)

271 See also Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), p.132

Table 5.1 Composition of net investment through other sectors, 2017-18 to 2021-22

	2017-18 revised ($ million)	2018-19 ($ million)	2019-20 ($ million)	2020-21 ($ million)	2021-22 ($ million)
Net investment through other sectors	4,816	1,624	2,751	2,527	693
Net advances to the PNFC sector related to the Port of Melbourne lease transaction	3,052	1,787	1,547	1,205	559
Proportion of total (per cent)	63.4	110.0[(a)]	56.2	47.7	80.7

(a) A proportion over 100 per cent represents sales being greater than purchases

Source: Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.201; Department of Treasury and Finance, *Historical Financial Tables – Cash Flow General Government*

FINDING 47: Net investments through other sectors are expected to remain negative in 2018-19 with a $1.6 billion cash flow expected. This is expected to increase to over $2.5 billion for 2019-20 and 2020-21 before falling to $693 million in 2021-22.

5.3.3 Public private partnerships and other investment

The PPPs and other investment component of government infrastructure investment represent financing arrangements made between the private sector and the Government for the construction, and in some cases, operating and maintenance of public assets.

Expenditure on PPPs and other investment is expected to reach $5.6 billion in 2018-19. PPP investment is expected to peak in 2018-19 before falling to $2.3 billion in 2021-22.[272]

A significant development in government infrastructure investment is the recent reliance by the Government on PPPs as a financing mechanism for the delivery of infrastructure as displayed in Figure 5.3. The forward estimates from this year's Budget show that as infrastructure investment drops, the proportion of PPPs as an investment component is also expected to decrease.

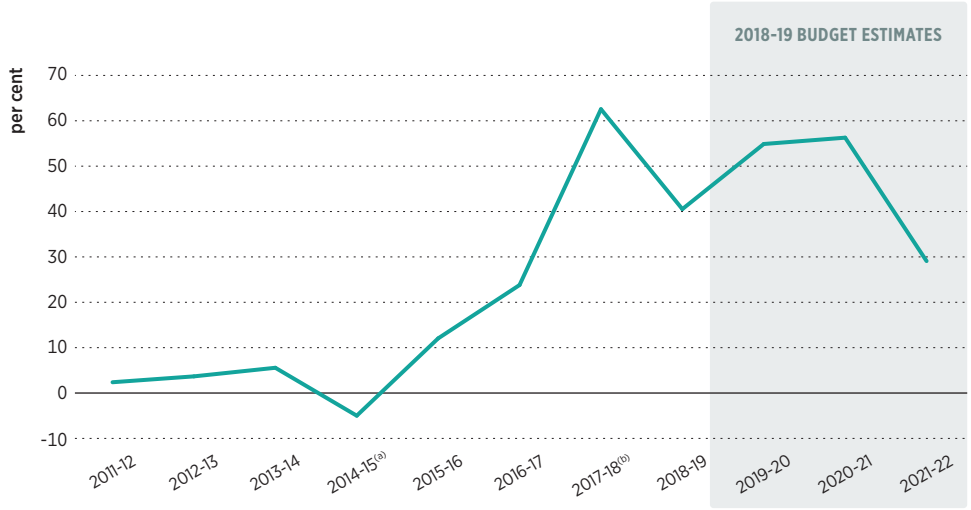
Figure 5.3 also shows the increase in PPP and other investment as a proportion of overall government infrastructure investment since 2011-12. The revised estimate for PPP and other investment for 2017-18 sees PPPs comprising just under two thirds (63.2 per cent) of overall government infrastructure investment. While the latest Budget indicates this is expected to fall to 41.1 per cent for 2018-19, PPP investment is expected to comprise more than 50 per cent of overall government infrastructure investment over 2019-20 and 2020-21.[273]

272 Department of Treasury and Finance, *Consolidated Cash Flow Statement – General Government Sector* (2018)

273 ibid.

FINDING 48: Public private partnerships and other investment is expected to reach $5.6 billion in 2018-19. Public private partnership investment is expected to peak in 2018-19 before falling to $2.3 billion in 2021-22. More than 50 per cent of overall government infrastructure investment over 2019-20 and 2020-21 is expected to be public private partnership investment.

Figure 5.3 **PPPs and other investment as a proportion of government infrastructure investment**



(a) The negative figure for 2014-15 was a result of a change to the cash flow model relating to the cancellation of the *East-West Link* project.

(b) The 2017-18 figure is a revised estimate.

Source: Department of Treasury and Finance, *Other financial aggregates – Net infrastructure investment* (2018)

PPP construction projects expected to be completed from 2018-19

The following are examples of PPP projects due to commence operation in 2018-19:

- *High Capacity Metro Trains*, a PPP contract with Evolution Rail, whereby 65 new seven car high capacity metro trains are designed, financed, manufactured and commissioned by the contractor. The contractor is also responsible for the maintenance and operational activities of the fleet for the 30 years after the provisional acceptance of the fleet.[274] According to the 2018-19 budget papers, the first train is due to be delivered for testing in November 2018, with the remainder of the fleet progressively operationalised from 2019 to mid-2023.[275] The project has a TEI of $2.2 billion.[276]
- *Casey Hospital Expansion*, a project to expand the existing floor space of the Casey Hospital. This will see a new multi-story tower built that will expand the number of beds available to the hospital to 128, and create four

274 Department of Treasury and Finance, *Budget Paper No.4: 2018-19 State Capital Program* (2018), p.14

275 ibid.

276 ibid., p.136

new operating theatres and a new sterile service department.[277] The new facilities are expected to be in operation by 2019. The project has a TEI of $140 million.[278]

- *Melbourne Exhibition Centre – Stage 2 Development*, part of the wider Melbourne Convention Exhibition Centre (MCEC) development, which will see new car parking facilities and a hotel development established in the South Wharf precinct by the PPP contractor, Plenary Group and partners.[279] The Government has already invested $205 million in the wider MCEC development program, with the budget papers stating Plenary Group are investing '$150-175 million' in stage 2 of the development.[280] The budget papers also state the project has a TEI of $168.7 million.[281]
- the *Bendigo Hospital Redevelopment – Stage Two*. This stage of the development includes a multideck car park and a commercial precinct. It is expected to be complete by mid-2018.[282] The car park opened on 27 June 2018.[283]

PPP projects currently under development

According to the 2018-19 budget papers there are three PPP projects currently under development. They are:

- *North East Link*. As discussed in Chapter 3, this $16.5 billion project was first announced in December 2016.[284] The project will connect the Eastern Freeway at Bulleen to the M80 Ring Road at Greensborough. Beyond the amount of funding the Government has already committed to the project ($110 million in this year's Budget and $100 million TEI in the 2017-18 Budget for planning and preconstruction activities[285]), the budget papers state:

  > The core package of the project (which will include a tunnel beneath the Yarra River and environmentally sensitive areas to the north of the Eastern Freeway) will be an availability PPP.[286] The new link will be tolled, with the State retaining toll revenues initially, while the Eastern Freeway will remain toll free.[287]

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277 ibid., p.14

278 ibid., p.65

279 ibid., p.14

280 ibid.

281 ibid., p.28

282 ibid., p.15

283 Chris Peddler, 'Bendigo Hospital's $630 million project is complete as helipad and car park prepare to open', *Bendigo Advertiser*, 26 June 2018, '<https://www.bendigoadvertiser.com.au/story/5489778/new-car-park-ready-to-open-as-bendigo-hospital-project-complete>

284 Hon Daniel Andrews MP, Premier and Hon Luke Donnellan MP, Minister for Roads and Road Safety, *Andrews Labor Government Will Build Missing Link To Connect Our City* (Media release, 11 December 2016); Hon Daniel Andrews MP, Premier, *North East Link – Victoria's Biggest Ever Transport Project* (Media release, 24 November 2017)

285 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), pp.11, 27, 32; Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.41, 45, 46

286 Availability PPPs refer to PPPs where payments are made to the private sector operator by the government entity, in exchange for making the infrastructure available. Partnerships Victoria, *Availability PPP PV Standard Project Deed – Guidance Notes*, March 2018, p.1

287 Department of Treasury and Finance, *Budget Paper No.4: 2018-19 State Capital Program* (2018), p.12

- Two *Suburban Roads Upgrade* projects – the *Northern Roads Upgrade* and the *South Eastern Roads Upgrade*. These PPP projects are similar to the *Western Roads Upgrade* project currently under construction, whereby road upgrades and subsequent maintenance form the contract with the PPP partner. In terms of the *Suburban Roads Package* PPPs, the construction element of the project is expected to take place over the next five years, and the maintenance element of the contract is expected to continue for the following 20 years.[288] The budget papers state the TEI for the two roads projects is $2.3 billion.[289]

FINDING 49: The three public private partnership projects under development in the 2018-19 Budget are road projects which will include maintenance of the roads by the public private partnership partner once construction is completed.

5.3.4 Impact of new accounting standards

Three new accounting standards have been released by the Australian Accounting Standards Board (AASB) for mandatory adoption for reporting periods commencing on or after 1 January 2019.[290] As the Department of Treasury and Finance states there is no intention to adopt the accounting standards early, they will be adopted in the 2019-20 financial statements.[291] Despite the standards being available for some years including a consultation period,[292] the Committee understands that the Department of Treasury and Finance has not issued instructions as to how departments are expected to meet their obligations under the new reporting requirements.

The new standards are:

- *AASB 1059 Service Concession Arrangements: Grantors,* released in July 2017
- *AASB 16 Leases,* released in February 2016
- *AASB 1058 Income of Not-for-Profit Entities,* released in December 2016.

Accounting standards provide rules and guidance on how reporting entities present financial information to users of financial statements. As the nature of operating evolves, accounting standards are altered to reflect relevant and significant operating methods. The revised standards are designed to improve transparency and understanding of accounting for public funds for the benefit of the wider community.

These new standards will impact on asset investment reporting and PPP financed projects specifically.

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288 ibid., p.13

289 ibid., p.26

290 *AASB 15 Revenue from Contracts with Customers* (for for-profit entities) has also been released for adoption in this timeframe. This standard is to be considered in compliance with the Australian accounting framework, but has limited application in public sector financial reporting.

291 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.45

292 For example, an exposure draft on service concession arrangements was written by the AASB in June 2010, and the standard finalised in July 2017 <https://www.aasb.gov.au/admin/file/content102/c3/Service_Concession_Arrangements_Project_Summary.pdf>, viewed 31 August 2018

Service Concession Arrangements

AASB 1059 Service Concession Arrangements: Grantors prescribes the accounting for a service concession arrangement by a grantor that is a public sector entity.[293] This situation normally arises when a public sector grantor (i.e. State Government) contracts an operator from the private sector to construct and operate a service concession asset. The current accounting environment only requires PPP assets to be brought on to the balance sheet when commissioned. The new accounting standard prescribes an asset is to be reflected in the grantor's financial statements when the grantor has control of an asset.[294] This brings forward the timing of when an asset is recognised, even if the asset is still under construction.[295] The asset is to be measured at fair value and a corresponding liability is also required to be raised.[296] The Department of Treasury and Finance notes that non-financial physical assets are measured at fair value[297] and as such there is no change expected in the value of already constructed PPPs. This includes constructed PPPs currently in operation such as:

- the Victorian Desalination Plant[298]
- the *Partnership Victoria in Schools* project and the *New Schools PPP*[299]
- recent hospital construction and redevelopment projects such as the Casey/Berwick Hospital, the Royal Women's Hospital, the Royal Children's Hospital, the Victorian Comprehensive Cancer Centre and the Bendigo Hospital[300]
- PPPs related to prisons including the Ravenhall Correctional Centre.[301]

However, assets that are in planning and development or being constructed, such as the *Metro Tunnel* project, will be required to be brought on to the State's finances progressively.

293 Australian Accounting Standards Board, *AASB 1059 Service Concession Arrangements: Grantors* (2017), p.7

294 Control of an asset differs from commissioning of an asset. Control requires determination by the entity, but may be defined as 'the grantor controls or regulates the services the operator must provide with the asset, to whom it must provide them and at what price, and if the grantor controls any significant residual interest in the asset at the end of the term of the arrangement.' Australian Accounting Standards Board, *AASB 1059 Service Concession Arrangements: Grantors* (2017), p.4

295 Australian Accounting Standards Board, *AASB 1059 Service Concession Arrangements: Grantors* (2017), p.7

296 ibid., pp.7-8

297 Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), p.14

298 Department of Environment, Land, Water and Planning, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 11 May 2018, p.17

299 Department of Education and Training, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 8 May 2018, pp.17-8

300 Department of Health and Human Services, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 15 May 2018, p.18

301 Department of Justice and Regulation, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 10 May 2018, p.31

FINDING 50: The new Australian Accounting Standards Board standard on service concession arrangements will change the way the asset value of public private partnership projects currently under construction such as the *Metro Tunnel* will be reflected in the financial statements. The new accounting standard prescribes an asset is to be reflected in the grantor's financial statements when the grantor has control of an asset. This will bring forward the timing of when an asset is recognised in the State Government's financial statements, even if the asset is still under construction.

The new standard requires a determination to be made as to what type of asset ownership arrangement exists, e.g. a construction contract, a lease or a service concession arrangement.[302] The determining factors may include examining who has residual interest in the asset, who has control of the arrangement and the level of autonomy of the operator. If it is determined that the criteria is not met to qualify as a service concession arrangement, the asset may fall under a different asset ownership arrangement.[303]

Leases

AASB 16 Leases supersedes the previous accounting standard *AASB 117 Leases*. Previously, operating leases were not required to be presented on the balance sheet, with only a disclosure required in the notes to the financial accounts. The new accounting treatment for leases, barring exceptions granted for low value and short-term leases, means all leases are treated consistently—that is, they are to be captured on the balance sheet. A lease liability will be required to be raised for operating leases that are now captured on the balance sheet under the new standard (measured at the present value of future lease payments[304]), with a corresponding 'right-to-use' asset fulfilling the debit entry.[305] Enhanced information is also required to be disclosed in the notes to the accounts.[306]

Income and 'peppercorn leases'

AASB 1058 Income of Not-for-Profit Entities establishes the principle that in an arrangement where a not-for-profit entity receives an asset for significantly less consideration than fair value, an appropriate asset and liability are to be raised, with the difference recognised as income.[307]

This addresses 'peppercorn leases', whereby a lease is obtained at significantly below market value. This may be relevant for transactions such as the arrangement made between the State and the Australian Football League (AFL)

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302 A public private partnership is a type of Service Concession Asset. *AASB 1059 Service Concession Arrangements: Grantors* (2017), p.4

303 As deemed under *AASB 1059 Service Concession Arrangements: Grantors* (2017)

304 Australian Accounting Standards Board, *AASB 16 Leases* (2016), pp.1-11

305 ibid., p.10

306 ibid., p.5

307 Australian Accounting Standards Board, *AASB 1058 Income of Not-for-Profit Entities* (2016), p.5

for the AFL headquarters site based at Docklands, announced prior to this year's Budget.[308] In relation to this transaction, the Committee was told by the Treasurer at the public hearing:

> ... it was considered by the state to be desirable to provide that land essentially at no cost—well, peppercorn cost—to the AFL for the purposes of being able to secure the arrangements that we have been able to leverage.[309]

In the course of the public hearings, the Committee further learned that the 'term sheet' negotiated between the Government and the AFL for the development of the AFL headquarters at Docklands includes a 40 year 'peppercorn' lease at $1 dollar a year, while the AFL develop plans to be:

> ... presented back to government [of] their proposal to develop that site for AFL headquarters. We are very explicit about what they cannot do, so they cannot develop it for residential purposes, they cannot develop it for serviced apartments, they cannot develop it for retail. So it is essentially AFL headquarters. They are where they currently are. They move over to that site. From the time of entering the agreement, they have four years to undertake the development of that site. If they have not undertaken the development of that site, then we have clauses— ...
>
> They [the AFL] have got to come back and present plans to government, at a future point they pay V G's [Valuer-General's] price, which is highest and best use, or they can continue to lease.[310]

The new standard mandates the asset is to be valued at fair value and the lease is to be valued at the present value of future lease payments. Additionally, when a grant is received with an obligation to either construct or acquire an asset, it is accounted for alongside a corresponding liability to recognise that obligation.[311] The liability is subsequently reversed into revenue as the obligation is completed.

FINDING 51: The revised Australian Accounting Standards aim to improve transparency surrounding the value of assets, including assets constructed under public private partnerships. Lease arrangements including peppercorn leases are also expected to be captured at fair value.

308 Hon John Eren MP, Minister for Sport, *Better Sports Grounds for More Victorians* (Media release, 1 May 2018)

309 Hon Tim Pallas MP, Treasurer, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.6

310 Mr Justin Hanney, Head, Employment, Investment and Trade, Department of Economic Development, Jobs, Transport and resources, *2018-19 Budget Estimates Transcript of Evidence*, 30 May 2018, pp.7-8

311 Australian Accounting Standards Board, *AASB 1058 Income of Not-for-Profit Entities* (2016), p.7

Recent recommendations made by the Committee in relation to PPP projects

This Committee has made a number of recommendations relating to greater transparency of PPP projects over recent inquiries. In the *Report on the 2015-16 Financial and Performance Outcomes*, the Committee recommended that the Department of Treasury and Finance:

> ... develop a two to three page template for Partnerships Victoria to present to the public using a consistent terminology on summary financial payment information for public private partnership projects.[312]

The Government did not support this recommendation, stating in its response to the Committee that it:

> ... considers the existing financial disclosures and guidance material adequately presents financial payment information to the public.[313]

The Government response then noted the Partnerships Victoria project summary template for PPP projects:

> ... includes a value for money section that discloses the public sector comparator (PSC) and compares the value for money of the PPP against the private party's proposal. The net present cost of the PSC and the PPP contract are disclosed, as well as the nominal PPP contract cost, the PPP lease liability and the breakdown of service payments.[314]

The Committee maintains that the project summary information available from Partnerships Victoria such as the PSC are based on estimated project costings that have been established prior to the actual contract being signed. Information provided on the lease liability and the breakdown of service payments, while available upon completion of the financial year in the *Annual Financial Report*, are not indicative of actual cash flows and rely on costings and estimations.

As part of the *Report on the 2015-16 Financial and Performance Outcomes*, the Committee also recommended that:

> A global figure of public private partnership payment commitments for the next thirty years be contained in the budget papers.[315]

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312 Public Accounts and Estimates Committee, *Report on the 2015-16 Financial and Performance Outcomes*, Recommendation 16, p.132

313 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Financial and Performance Estimates*, tabled 24 November 2017, pp.9-10

314 ibid.

315 Public Accounts and Estimates Committee, *Report on the 2015-16 Financial and Performance Outcomes* (2017), Recommendation 20, p.149

This recommendation was also not supported by the Government, stating in the response to the Committee that:

> The relevant departments and agencies maintain ... detailed records around these [PPP] arrangements, and provide summary information to DTF [Department of Treasury and Finance] for the purposes of consolidated financial reporting by the government, consistent with the relevant Australian accounting standards and related reporting practices and requirements for preparing the Financial Report and Budget.[316]

The Committee notes the changes to accounting standards concerning service concession arrangements, leases and income discussed earlier attempts to broaden the scope of items required to be brought on to the balance sheet and measured at fair value, in effect creating a more transparent and consistent accounting environment. These changes in asset accounting aim to remove the uncertainty surrounding valuing and presenting financial information on asset infrastructure investment in the public sector.

As part of the *Report on the 2017-18 Budget Estimates*, the Committee recommended:

> Where a large public private partnerships project is announced in a budget which is expected to be commissioned beyond the forward estimates period, the budget papers in which it is announced should detail the expected impact of the project on net debt and how the Government intends to manage the debt.[317]

The Government gave in principle support to this recommendation, although the response noted that:

> It is not possible to accurately estimate the annual impact on net debt outside the forward estimates at the time PPPs are announced in a budget because, at this early stage of the procurement process, there are many project planning and development details yet to be settled.
>
> The Government's financial management objectives are outlined in annual budget papers in accordance with the *Financial Management Act 1994*. These objectives are a set of principles that guide the development of State budgets and the State's financial estimates, including the management of net debt.[318]

The Committee further notes that the changes to accounting standards are likely to increase the level of debt captured on the balance sheet. As the AASB notes, in an accounting environment that previously required users of financial statements to estimate the value of debt:

> ... the [new] approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.[319]

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316 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Financial and Performance Estimates*, tabled 24 November 2017, p.14

317 Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), Recommendation 8, p.130

318 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2017-18 Budget Estimates*, tabled 30 April 2018, p.4

319 Australian Accounting Standards Board, *AASB 16 Leases* (2016), pp.5-6

FINDING 52: Previous recommendations made by the Committee over the course of this Parliament, regarding greater transparency for public private partnership project financing arrangements were not supported by the Government, but will be met to a certain extent with the incoming Australian Accounting Standards Board revisions.

5.4 School infrastructure

As Melbourne and to a lesser extent regional Victoria's population has rapidly grown in the last few years, the need to build new schools and upgrade existing schools has become more pressing. The 2018-19 Budget contains funding over the next financial year and estimates period for:

- the design and early works at nine schools
- the construction of additional stages of school buildings at seven schools
- the building of 12 new schools.[320]

The location of these schools is set out in Figure 5.4.

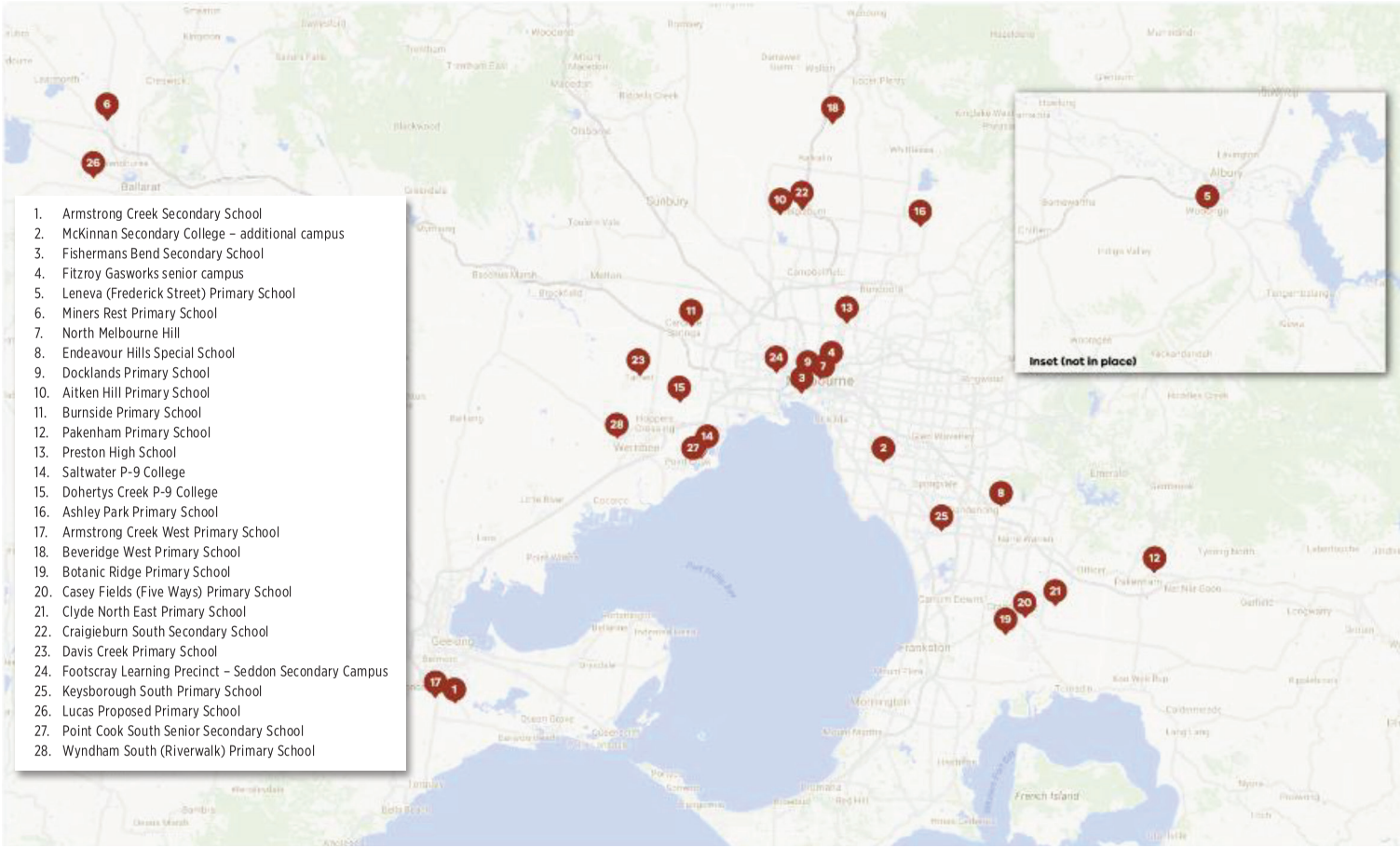
Victoria currently has 1,541 government schools that are open.[321]

This section of the report explores the role of the Victorian School Building Authority (VSBA). It also examines some of the challenges for the authority and the roll out of the new schools and school upgrades.

320 Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions*, received 10 August 2018

321 ibid., p.3

Figure 5.4 New schools under construction as set out in the 2018-19 Budget



Source: Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions*, received 10 August 2018

5.4.1 The 2018-19 Budget

The Department of Education and Training Victoria (DET) asset initiatives that relate to the construction of new schools and school upgrades in the 2018-19 Budget are set out in the table below:

Table 5.2 New schools and school upgrades—asset initiatives

	2017-18	2018-19	2019-20	2020-21	2021-22	TEI
Land acquisition	19.0	202.2	50.5	–	–	271.7
New schools construction	–	192.0	136.4	12.4	0.5	341.3
Planning for schools	1.2	11.7	2.3	2.0	–	17.2
Relocatable classrooms	–	70.5	–	–	–	70.5
School upgrades	–	102.6	244.3	131.3	4.6	482.8
Victorian school asbestos program	–	45.0	–	–	–	45.0

Source: Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.53

The Growth Areas Infrastructure Contribution (GAIC) funding[322] of $116.1 million to acquire land for schools in growth areas and $67.9 million to fund construction of new schools in growth areas is included in the figures set out in Table 5.2 above.

The Minister for Education advised the Committee at the estimates hearing that to accommodate the estimated 56,000-60,000 additional students who will attend government schools by 2022:

- 28 new schools will be built to accommodate 15,000 students
- 134 existing schools will be upgraded
- 70 new school projects are underway or complete (50,000 additional students).[323]

The Committee sought clarification from the Minister for Education as to what constitutes a 'new school'. The Committee notes that it is unclear what constitutes a 'new school' from the 2018-19 budget papers, as under the *New Schools Construction* asset initiative, additional stages of school buildings to be constructed are included at seven schools and these are not completely new schools. The Minister advised that:

> The delivery of new schools always occurs in multiple stages, usually includes land acquisition, planning, and construction. Some schools, in particular secondary colleges, are constructed in multiple stages.

322 GAIC is administered by the Minister for Planning and the Treasurer. The Minister for Planning and the Treasurer identified which schools were to be funded through GAIC, and advised the Minister for Education. All of the land acquisition and construction of new schools projects funded through GAIC are in Melbourne's greenfield growth areas. Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions,* received 10 August 2018, p.4

323 Hon James Merlino MP, Minister for Education, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, p.3

> New schools which are in the initial stages of development, are yet to be designed and may require early works to be undertaken, such as Armstrong Creek Secondary College. Then there are those schools which have already received funding for construction in previous state budgets, and funding is needed for additional stages of construction. Aitken Hill Primary School is one example and is being built in the Craigieburn area ... Finally, there are those schools referred to as new schools and these are schools which have received funding to start construction. For example, Armstrong Creek Primary School and Botanic Ridge Primary School.[324]

The Committee asked the Minister at the budget estimates hearings how the future demand will be met.[325] The Minister advised the Committee that:

> We are now getting ahead of that demand pressure. With the new schools we are now above meeting that need of 50,000. With relocatables, which are always part of the mix with a new school, we can accommodate up to 93,000 if we need to ...[326]

The Minister confirmed that the 93,000 places was in reference to government schools and that up to 28,000 students may be accommodated in relocatable buildings.[327]

5.4.2 Victorian School Building Authority

The VSBA was established in 2016 as a division of the Department of Education and Training. VSBA is responsible for overseeing the design and construction of new schools and early childhood centres and the upgrade of existing schools.[328] With regards to new schools, the authority is involved in the planning phase, providing specific input on the site availability and land acquisition cost and processes.[329] It also has carriage of the Victorian Schools Asbestos Removal Program and Permanent Modular School Buildings Program. Permanent modular buildings are being used to replace older buildings containing asbestos.

Prior to the establishment of the VSBA, most of the new schools that opened in 2017 and 2018 were delivered through PPP projects. Nine of the ten schools opened in 2017 were PPP schools and six of the eleven schools that opened in 2018 were PPP schools. The Department of Education and Training advised the Committee that no new PPP arrangements are planned at this stage or have been funded whilst 70 new school projects are underway through direct asset investment.[330]

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324 Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions*, received 10 August 2018, p.5

325 Ms Vicki Ward MP, Public Accounts and Estimates Committe, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, p.16

326 Hon James Merlino MP, Minister for Education, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, p.18

327 Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions*, received 10 August 2018, p.6

328 Victorian School Building Authority, *About Us* <https://www.schoolbuildings.vic.gov.au/Pages/About-Us.aspx>, viewed 28 June 2018

329 Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Questions on Notice*, received 29 June 2018, p.22

330 Department of Education and Training, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 8 May 2018, p.3

The Minister for Education explained to the Committee at the budget estimates hearings the time taken from planning a new school to the school opening its doors to students:

> So the Victorian School Building Authority has a standard 68-week process to plan school infrastructure, and this includes working with the school on the scope and priorities for its upgrade, as well as design and documentation. Following this, on average schools take around 12 to 18 months to build—and some projects are ready to go to market already thanks to pre-planning … The government has decreased the planning process for school capital upgrades from 110 weeks to 68 weeks, and that 68-week planning process was introduced as part of the 17–18 budget to establish a more streamlined planning and design process. In addition, since the establishment of the VSBA we have had a significant improvement in meeting our time lines … It shows the importance of having a dedicated building authority to deliver that infrastructure program, and it is one of the reasons why we are doing exactly the same thing in emergency services.[331]

The NSW government established a similar dedicated unit in 2017—Schools Infrastructure NSW—to roll out its $4.2 billion investment in school infrastructure over four years. The work of the unit is overseen by the School Infrastructure NSW Advisory Council which is comprised of representatives from the business and education sectors.[332]

5.4.3 Challenges/issues

Increasing demand for student places

The Minister for Education discussed the accelerating growth in school enrolment numbers particularly in the government sector at the budget estimates hearing. With regards to the non-government sector, the Minister advised the Committee of the steady growth that has taken place:

> Particularly from around 1994 you can see that steady lift. Since that time we have seen on average around 4000 new students enter the non-government school system each year. We are predicting growth in non-government school enrolments across Victoria to increase between 5000 and 6500 students each year over the next five.[333]

The Minister also commented on the growth in government school enrolments and the relatively consistent number of students at government schools from around the mid-1980s through to about 2010:

> During this time the number of students at government schools was between 520 and 550 000. From 2011 onwards we have seen a massive growth, with an average of around 10 000 new students in the government system each and every year … Over the next five years we are expecting this growth to continue …[334]

The enrolment trends in both sectors are illustrated in Figure 5.5.

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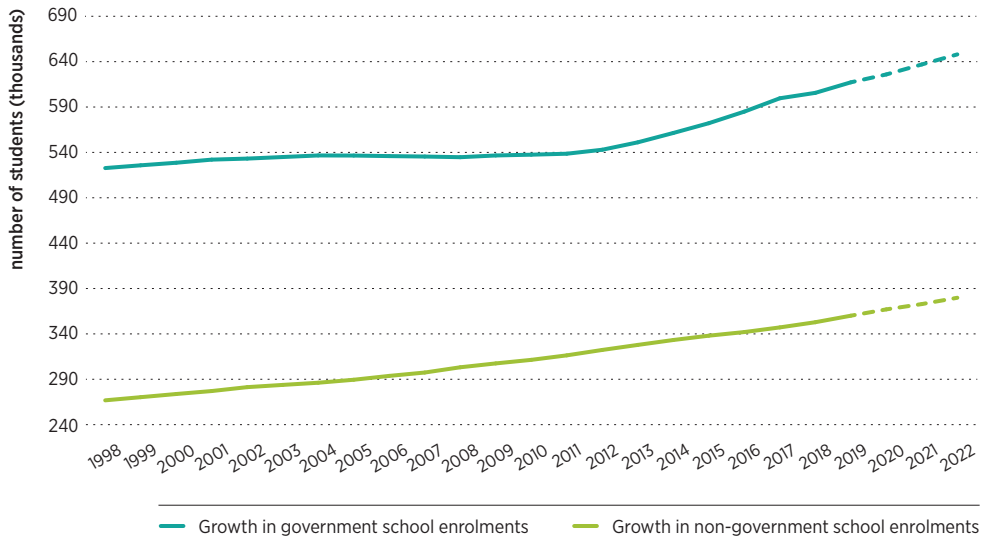
331 Hon James Merlino MP, Minister for Education, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, pp.23-4

332 NSW Department of Education, *Annual Report 2017*, May 2018, p.9

333 Hon James Merlino MP, Minister for Education, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, p.3

334 ibid.

Figure 5.5 Growth in enrolments in government and non-government schools



Source: Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions*, received 10 August 2018, pp.10-11

The demand for school places in Victoria has not only grown markedly as a result of population growth. Government schools are perhaps increasingly popular as households grapple with cost of living pressures, a flattening jobs market and stagnant wage growth. The Committee asked the Minister for Education why the growth in enrolment has accelerated at a faster rate in the government sector than the non-government sector and the main factors that explain this difference.[335] The Committee was advised that the Department of Education and Training has not undertaken detailed analysis as to why the growth in enrolments has accelerated at a faster rate in the government sector.[336]

FINDING 53: The Department of Education and Training has not undertaken detailed analysis as to why the growth in school enrolments has accelerated at a faster rate in the government sector than the non-government sector.

There are several challenges regarding the planning process. Changing enrolment patterns and increasing land prices has made the process of acquiring land for school perhaps more complex than in the past. The Minister for Education explained to the Committee:

> We understand where the demand is coming from ... It is also important because of land prices. Previously you could anticipate growth and it was a bit more predictable ... in the previous Bracks-Brumby administration you could predict steady growth and you could purchase a piece of land within one or two years. Now if you do not get ahead of demand and price, it has a significant budget impact ... [337]

335 Public Accounts and Estimates Committee, *Follow-up Questions addressed to the Minister for Education,* 24 July 2018, question 7

336 Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates* Additional Questions, received 10 August 2018, p.6

337 Hon James Merlino MP, Minister for Education, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, p.17

BOX 5.1: School enrolment pressures in Melbourne's west—City of Wyndham

The pressures created by rapid population growth are evident in the City of Wyndham which takes in the suburbs of Point Cook, Werribee, Hoppers Crossing and Tarneit. The Committee notes that the City of Wyndham in Melbourne's west, experienced some of the greatest population growth in Australian between 2012-2017. Council data indicates that between October and December 2017 the average number of births in Wyndham was 93.4 per week which is equivalent to four primary school classes each week.[(a)] The Mayor has stated that 'at the rate we are growing we need a primary school every year and a secondary school every three years'.[(b)] In 2017 Featherbrook P-9 School opened in Wyndham and in 2018 Tarneit Rise Primary opened. In 2019 two P-9 schools are scheduled to open.[(c)] In 2020 one secondary and two primary schools are funded to open in Wyndham.

(a) Wyndham City Council, *Wyndam Snapshot*, February 2018, p.2

(b) Monique Hore, 'West's growing pain', *Herald Sun*, 23 July 2017

(c) Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions*, received 10 August 2018, p.21

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The Department of Education and Training is also constrained by annual budget allocations. The development of two new suburbs (Donnybrook and Woodstock) over a 30-year period was announced in November 2017. It is expected that these two new suburbs will become a home for 17,000 dwellings and 2,100 local jobs. In addition, there are plans for five local town centres, five convenience centres, six government schools, four non-government schools and 46 hectares of parkland.[338] A total amount of $115 million is expected to be paid through GAIC, which will go towards land acquisition and construction for a future primary school at Donnybrook—named in the interim as Hayes Hill Primary School—as well as a future Country Fire Association and ambulance station, a community hub and sports grounds.[339] Transport infrastructure at Donnybrook was discussed with the Minister for Planning at the budget estimates hearings.[340] The Committee asked the Minister for Education when the six government schools in Donnybrook and Woodstock, announced as part of the development of these two new suburbs will be completed.[341] The Minister advised that:

> Developing a new school involves a number of stages to ensure that public money is invested in the right place at the right time. These stages include demographic assessment, site selection and a site suitability assessment, followed by land acquisition, design and finally construction.
>
> Opening dates for government schools identified in Precinct Structure Plans are determined once funded in future budgets.[342]

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338 Hon Richard Wynne MP, Minister for Planning, *New Suburbs In Melbourne's North* (Media release, 4 November 2017)

339 ibid.

340 Hon Richard Wynne MP, Minister for Planning, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, pp.30-1

341 Public Accounts and Estimates Committee, *Follow-up Questions addressed to the Minister for Education,* 24 July 2018, question 22

342 Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions*, received 10 August 2018, p.25

Concerns regarding the transparency of investment decisions were raised in the estimates hearings such as why new schools are located in a certain area.[343] The Minister advised that Committee that:

> So, firstly, in terms of the recommendations from Infrastructure Victoria on an investment pipeline, we accept those recommendations from Infrastructure Victoria. In terms of the VSBA's website—in 2016 the VSBA was created. You look at the VSBA's website and that contains information and time lines for every project funded by the government … So you have got the website, which talks about the current construction pipeline, provides updates and time lines and delivers transparency that we have not seen before. We have got the acceptance of the Infrastructure Victoria recommendations.[344]

Infrastructure Victoria previously recommended greater transparency of the school investment pipeline in its 2016 *30-year infrastructure strategy*. Infrastructure Victoria recommended that on an annual basis 5-year investment priorities should be published for new and upgraded government schools, alongside the planning data that shows demonstrated need, within 0-5 years. The rationale for this recommendation was that 'this transparency will communicate to communities how priorities are made, provide greater certainty and lead time to enable co-investment to occur and reduce the need for community advocacy'.[345] The Committee understands that substantial departmental resources are taken up with responding to requests from the community for the construction of new schools.

> The current VSBA website contains information on funding committed to planning projects, new schools and school upgrades but does not provide the planning data that underpins the demonstrated need for each investment.[346]

FINDING 54: The current school investment process lacks transparency as the data demonstrating the need for the location of new schools is not publicly available.

RECOMMENDATION 6: The planning data that underpins the demonstrated need for each new school be included and regularly updated on the interactive Victorian School Building Authority website.

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343 Hon Sue Pennicuik MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, p.23

344 Hon James Merlino MP, Minister for Education, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, p.23

345 Infrastructure Victoria, *30-year infrastructure strategy* (2016), p.118

346 Victorian School Building Authority <https://www.schoolbuildings.vic.gov.au/Pages/home.aspx>, viewed 31 August 2018

Upgrades and maintenance

In the 2018-19 Budget, $483 million has been allocated to expand, upgrade and modernise 134 schools across the state.[347] The Committee asked at the estimates hearing whether school upgrades include maintenance.[348] The Minister advised that: 'When you upgrade a school, you deal with maintenance issues as well'.[349]

The Committee sought further clarification regarding the differences between a school upgrade, maintenance and school modernisation.[350] The Minister advised that:

> A school upgrade and modernisation project will focus on improving an existing asset to support the delivery of modern learning and teaching practices and, where applicable, to cater for increasing student population.
>
> A school maintenance project will address or prevent an asset failure and repair the asset back to an acceptable condition to extend its life.[351]

The Committee also asked what a typical school upgrade entailed.[352] It was advised that:

> Every school upgrade project is unique in nature, some projects may involve providing a school with a new facility and others may improve the design and functionality of an existing facility. A common upgrade and modernisation project is to reconfigure existing classrooms from single cell classrooms to more open, learning community, spaces to allow for more flexible learning areas.[353]

The Department of Education and Training accepted the recommendation from the Auditor-General in 2017 that it develop an investment strategy for government school assets. The Department of Education and Training planned to use the strategy to advise the Government in long term investment options for school assets.[354] The Department of Education and Training was progressively requiring schools to develop a five-year asset management plan (AMP).[355] According to the department, about one-third of schools in 2017 had one. All schools will have AMPs focussing on preventative maintenance by 2021.[356]

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347 Hon James Merlino MP, Minister for Education, *2018-19 Budget Estimates presentation*, 16 May 2018, p.9

348 Hon Sue Pennicuik MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, p.10

349 Hon James Merlino MP, Minister for Education, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, p.10

350 Public Accounts and Estimates Committee, *Follow-up Questions addressed to the Minister for Education,* 24 July 2018, question 24

351 Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions*, received 10 August 2018, p.27

352 Public Accounts and Estimates Committee, *Follow-up Questions addressed to the Minister for Education,* 24 July 2018, question 25

353 Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions*, received 10 August 2018, p.28

354 Victorian Auditor-General's Office, *Managing School Infrastructure (2017)*, Appendix A: Department of Education and Training's response to the audit, p.56

355 ibid., p.57

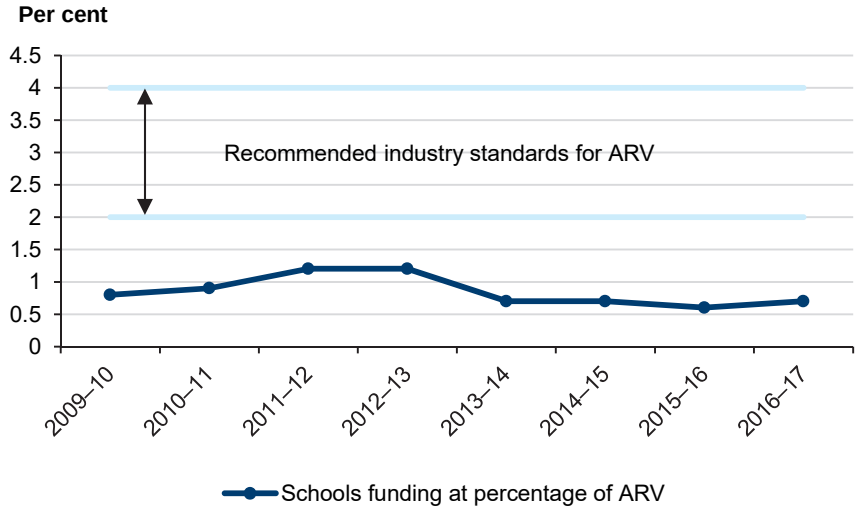
356 ibid.

The Chief Executive Officer (CEO) of the VSBA explained the role of ongoing school facilities audits, commenced in early 2018,[357] and maintenance plans at the budget estimates hearing:

> The rolling facilities evaluation is an important step, but the biggest step that happens after that is that every school develops a five-year maintenance plan. Once they get their audit results, the department, the Victorian School Building Authority, will sit down with each school and develop a five-year plan to be really clear about what needs to be done each month, each quarter and each year, looking at their Student Resource Package budget, looking at the programmatic support the department has to make sure they can manage their assets over that five years. Then at year six, it will start again. That is the way we will move into much more cyclic, planned, predictable way of investing.[358]

Historically, government schools in Victoria have been funded at a rate below industry standards for maintenance, as set out in Figure 5.6. Annual investment of two to four per cent of asset replacement value is regarded as typical.[359] School maintenance funding is approximately 0.7 per cent of asset replacement value (ARV) in 2017-18 and 2018-19.[360]

Figure 5.6 School maintenance funding as a percentage of ARV compared to industry standard



Source: Victorian Auditor-General's Office, *Managing School Infrastructure* (2017), p.50

FINDING 55: School maintenance funding was 0.7 per cent of asset replacement value in 2017-18 and 2018-19, below the two to four per cent regarded as the typical sector benchmark. Historically, government schools in Victoria have been funded at a rate below industry standards for maintenance.

357 Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Questions on Notice*, received 29 June 2018, p.3

358 Mr Chris Keating, CEO, Victorian School Building Authority, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, p.10

359 Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions*, received 10 August 2018, p.30

360 ibid., p.29

Infrastructure Victoria recommended in 2016 that five-year investment priorities for new and upgraded government schools be published on an annual basis. The Committee believes that increased transparency regarding the maintenance needs of schools and investment allocated is needed. The Education portfolio receives the second largest slice of the State budget after health spending. The Department of Education and Training has one of the largest state-owned asset portfolios in Victoria.[361] The condition of school buildings is also a matter of significant public interest. Accordingly, the Committee recommends that:

RECOMMENDATION 7: Investment priorities for the upgrade and maintenance of government schools be published on an annual basis.

RECOMMENDATION 8: The Department of Education and Training give consideration to the publication of five year asset management plans where appropriate.

Relocatable buildings

According to the VSBA website 'our new generation of relocatable buildings can be moved from one school to another to assist [with unforeseen issues and natural disasters], and also help to manage enrolment fluctuations'.[362] There is $70.5 million in the 2018-19 Budget for relocatable classrooms 'to relieve pressure at schools that are reaching their capacity and to provide additional spaces for learning'.[363] The Minister for Education explained at the budget estimates hearing how the relocatables were allocated:

> ... particularly with schools with tight physical constraints on site—you want to avoid as much as you can providing relocatables to deal with enrolment pressures where the relocatables are dumped on top of the basketball courts. You want to make sure that you maximise play space for the kids, so these double-storeys are very, very popular. They are delivered on the basis of need, using school census data. The VSBA works with schools and the department's regional office to determine which schools are to be allocated relocatable buildings.[364]

The Committee asked the Minister what the difference between portables, demountables, relocatables and permanent modular buildings.[365] The Committee also asked how decisions are made about which building type is most suitable for a site. The Minister advised that:

> The broad use of these terms is an industry wide issue ... 'Demountable', 'transportable', 'portable', 'relocatable' are interchangeable names referring to modular buildings that can be moved. 'Permanent modular buildings' use the modular construction technique, but are built to be permanently on site, like a traditional building.[366]

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361 Victorian Auditor-General's Office, *Managing School Infrastructure* (2017), p.2

362 Victorian School Building Authority <https://www.schoolbuildings.vic.gov.au/Pages/About-Us.aspx>, viewed 31 August 2018

363 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.55

364 Hon James Merlino MP, Minister for Education, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, p.18

365 Public Accounts and Estimates Committee, *Follow-up Questions addressed to the Minister for Education,* 24 July 2018, question 9

366 Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions*, received 10 August 2018, p.12

The Minister explained that relocatable buildings are used to provide additional capacity in a short to medium timeframe.[367] The Department has over 5,000 of these buildings for this purpose. Permanent modular buildings are used as part of a pilot program under the Asbestos Removal Program to replace poor condition schools that have significant amounts of asbestos. Permanent modular buildings are discussed in more detail in the section on asbestos removal below.

Special schools

The Premier explained to the Committee that $55.6 million has been allocated to plan and upgrade 15 special schools:

> Emerson School, Southern Autistic School, a new special school in Endeavour Hills, 12 schools that are being upgraded, Barwon Valley, Frankston special school—I can make them available to the committee, and I think there might even be a list in the budget papers of these investments. That is the way I view them; they are not costs so much as they are really profound investments in fairness and decency, making sure that every child gets exactly what they need …
>
> I think these families and the school communities who love them and cherish them and provide for them, have been, you could say, ignored for a very long time … we need to continue that investment. It is a very, very important part of the education story, indeed a very important part of the budget for this year … [368]

It is not possible to ascertain from the list of new school projects in Budget Paper No.4 nor the VSBA website, all of the schools that are special schools or schools that cater for larger cohorts of special needs students than typical mainstream schools. Of the nine special schools, labelled as such in the budget papers, a total of $12.5 million has been allocated for new projects in 2018-19.[369] Of this estimated expenditure in 2018-19, 93 per cent is to relocate Warrnambool Special Developmental School. The balance of the funding—$32.8 million—has been allocated over the forward estimates. An additional $10 million has been allocated in 2018-19 under the Inclusive Schools Fund to provide inclusive playgrounds, outdoor sensory areas and quiet re-engagement areas.[370] No funding has been allocated for this type of school infrastructure in future years.[371]

Asbestos removal

The Department of Education and Training is responsible as an employer and site owner of government schools for identifying asbestos-containing materials on site, keeping an asbestos register and managing any asbestos risks accordingly.[372]

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367 ibid.

368 Hon Daniel Andrews MP, Premier, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.12

369 Department of Treasury and Finance, *Budget Paper No.4: 2018-19 State Capital Program,* pp.33-43

370 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery*, pp.53, 58

371 ibid., p.53

372 Hon James Merlino, Minister for Education, *2018-19 Budget Estimates Hearings, Response to Questions on Notice*, received 29 June 2018, p.8

An audit was completed in 2016 of 1,712 government schools that captured information about asbestos in school buildings.[373] According to the Department of Education and Training the audit informs the Asbestos Removal Program. The program prioritised the removal of all high-risk asbestos identified at 497 schools,[374] which was completed by March 2016. The Department advised that it is undertaking the next phase of the program which is to remove identified asbestos that, although not classified as high-risk, may pose a risk in the future.

The Committee asked the Minister for Education how many schools audited in 2017-18 found asbestos detected in their buildings for the first time.[375] The Committee was advised that the VSBA conducted updated Division 5 audits for 165 school sites in 2017-18, and 15 sites had new identified asbestos.[376]

In 2018-19, $45 million has been allocated to the Victorian school asbestos program.[377] Funding for the program beyond 2018-19 is not set out in the budget papers. The funding is provided to 'target and remove asbestos in schools that may pose a risk in the future'. This includes the removal of asbestos by replacing buildings with new modular facilities, and during refurbishment and capital works'.[378] The Minister for Education advised the Committee at the budget estimates hearing that the budget includes funding for 21 schools to receive the new modular buildings as part of the asbestos removal program and most of the programs funding would go towards such buildings.[379]

The modular buildings are permanent structures at a school, as the CEO of the VSBA explained at the budget estimates hearing:

> These buildings that are part of the asbestos program are permanent, so whilst they are designed and constructed in a factory and then assembled on site, they are designed to be there long term. What we will do is work with the school that is receiving one of those buildings and have a high-level master plan so if there is future investment, where would it be, how does this fit into the broader plans of the school? You are putting something in that meets the school's long-term objectives and where we see their enrolment growth going.[380]

The type of construction used for the modular buildings is explained on the VSBA website.[381] The buildings are made in sections in a factory then delivered to schools and assembled onsite. The process 'can cut up to half the time required for a traditional build'.

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373 ibid.

374 Victorian School Building Authority, *Asbestos removal from schools* <https://www.schoolbuildings.vic.gov.au/Pages/Asbestos-removal-from-schools.aspx>, viewed 1 August 2018

375 Public Accounts and Estimates Committee, *Follow-up Questions addressed to the Minister for Education,* 24 July 2018, question 14

376 Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions*, received 10 August 2018, p.17

377 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.53

378 ibid., p.57

379 Hon James Merlino MP, Minister for Education, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, pp.23, 25

380 Mr Chris Keating, Chief Executive Officer, Victorian School Building Authority, *2018-19 Budget Estimates Transcript of Evidence*, 16 May 2018, p.30

381 Victorian School Building Authority, *What is a modular building* <https://www.schoolbuildings.vic.gov.au/blog/Pages/What-is-a-modular-building.aspx>, viewed 1 August 2018

Since the 2016 audit, new regulations regarding asbestos testing have come into force, as the Minister for Education explained:

> Under the OHS [Occupational Health and Safety] Regulations 2007, Division 5 Asbestos in Workplaces and Division 6 Demolition and refurbishment where asbestos is present only applied to workplaces where asbestos containing material is fixed or installed in a building or structure.
>
> Under the OHS Regulations 2017, Division 5 and Division 6 now apply to a workplace where asbestos may also be present on non-fixed and non-installed places, such as on school grounds.
>
> Division 5 audits (visual inspections) are conducted by occupational hygienists once at least every five years to have updated asbestos information about the school's buildings. Under the OHS Regulations 2017, these audits will now also cover school grounds, and the resulting audit reports will capture information about any asbestos found in these locations.
>
> Where demolition, construction or major refurbishment occur at a school, a Division 6 audit (intrusive sampling) must firstly be performed. Under the OHS Regulations 2017, these audits will now include sampling of school grounds/soil at the work site.[382]

Asbestos must also be managed in reconditioned relocatable buildings. The Committee asked the Minister the extent to which the Department is finding asbestos in portables that have recently been reconditioned and how this issue is being managed.[383] The Minister stated that:

> The Victorian School Building Authority is managing asbestos risks by undertaking a Division 6 audit on every relocatable building that is transferred from a school site. A Division 6 audit is an invasive audit which is a mandatory audit under the Occupational Health and Safety Regulations 2017 to be undertaken prior to any demolition or major maintenance works. If asbestos is identified through the audit, the asbestos is removed before being sent to the recipient site. Following the removal of asbestos, a clearance certificate is issued advising that the building is asbestos free.
>
> In the 2017-18 Relocatable Buildings Program, 90% of buildings reconditioned and re-used contained asbestos. The asbestos was removed before being sent to recipient sites.
>
> The same process will apply to buildings funding in the 2018-19 Relocatable Buildings Program.[384]

According to the 2018-19 budget papers, the total estimated investment in the asbestos removal program is $85 million, with $57.7 million expected to be expended on the program by the end of 2017-18.[385] $27.3 million of the funding for the Asbestos Removal Program (2017-18) is expected to be spent this

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382 Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions*, received 10 August 2018, p.16

383 Public Accounts and Estimates Committee, *Follow-up Questions addressed to the Minister for Education,* 24 July 2018, question 11

384 Hon James Merlino MP, Minister for Education, *Response to the Committee's 2018-19 Budget Estimates Additional Questions*, received 10 August 2018, p.14

385 Department of Treasury and Finance, *Budget Paper No.4: 2018-19 State Capital Program* (2018), p.44

financial year.[386] The Committee understands that the $45 million the Premier referred to at the hearing is in addition to the unspent funds allocated last financial year.[387]

Over the next three years the VSBA is expecting to replace a further 100 school buildings with new facilities and remove asbestos at more than 1,200 schools.[388] The sites that have been identified as of highest priority and progress being made in addressing the risks of asbestos in school should be made transparent and available on the VSBA website.

RECOMMENDATION 9: The status of the asbestos removal process be published on the Victorian School Building Authority website in addition to the prioritisation of removal works.

The Minister for Finance has oversight of the Victorian Asbestos Eradication Agency (VAEA). The Committee asked the Minister about the relationship of the asbestos work program between the VAEA, the VSBA and the Department of Health and Human Services building authority.[389] The Minister advised that:

> The VAEA is working with all Victorian departments, agencies and public sector bodies, including the Victorian School Building Authority (VSBA) and the Victorian Health and Human Services Building Authority to:
>
> - identify the presence and condition of asbestos in Victorian government buildings, analyse the current and future risks of exposure to the identified asbestos, and
> - develop a schedule that prioritises the removal of identified asbestos from Victorian government buildings based on the assessed risk.
>
> Victorian government buildings are defined in the VAEA's establishing instrument as buildings owned by Victorian public sector bodies, but do not include buildings owned or leased by the Director of Housing.
>
> The Victorian School Asbestos Removal Program was developed prior to the establishment of the VAEA. The VAEA is incorporating the work of the School Asbestos Removal Program. The VAEA is also working closely with VSBA to incorporate learnings from its asbestos removal program into its work.[390]

The VAEA is due to report to the Government in December 2018 with the schedule that prioritises the removal of identified asbestos from Victorian government buildings based on the assessed risk.[391] It is unclear whether the schedule will be publicly released and whether school buildings will form part of this schedule.

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386 ibid.

387 Hon Daniel Andrews MP, Premier, *2018-19 Budget Estimates presentation*, 15 May 2018; Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.53

388 Victorian School Building Authority, *Asbestos removal from schools* <https://www.schoolbuildings.vic.gov.au/Pages/Asbestos-removal-from-schools.aspx>, viewed 1 August 2018

389 Mr David Morris MP, Deputy Chair, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 12 June 2018, p.12

390 Hon Robin Scott MP, Minister for Finance, *Response to the Committee's 2018-19 Budget Estimates Questions on Notice*, received 11 July 2018, p.7

391 ibid., p.3

FINDING 56: It is unclear whether the schedule that prioritises the removal of identified asbestos from Victorian government buildings based on the assessed risk will include schools and be publicly released in December 2018.

5.5 The *Metro Tunnel* project

5.5.1 Planning and development for a metropolitan tunnel project, 2008-2014

A metropolitan tunnel project was first recommended in 2008 as part of the wider transport and infrastructure *Investing in Transport* report from Sir Rod Eddington (known as the 'Eddington report').[392] The report recommended that:

> Planning work should commence on the staged construction of a 17 kilometre Melbourne Metro rail tunnel linking Melbourne's booming western and south-eastern suburbs.[393]

Amongst other findings, the report also recommended 'a single statutory authority be created to deliver ... the full suite of projects'.[394]

The *Victorian Transport Plan* (VTP) was subsequently released by the then Government, incorporating recommendations from the Eddington Report. The *Metro Tunnel* project included in the VTP was described as:

> ... [a] tunnel from Dynon to St Kilda Road (Domain) [that] will cost in excess of $4.5 billion, with Stage 2 to Caulfield to be delivered after completing Stage 1.[395]

At this stage the VTP noted the project was to be submitted to Infrastructure Australia, the Commonwealth statutory authority responsible for assessing national infrastructure projects, for Commonwealth funding.[396] The 2008-09 and 2009-10 Budgets did not mention a metropolitan tunnel project as an asset initiative.

In the 2010-11 budget papers, there was provision for a $40 million TEI 'Commonwealth funded initiative'[397] for:

> ... planning and development activities on the first stage of the Melbourne Metro Rail Tunnel from Dynon Road in the west to St Kilda Road at Domain.[398]

The 2010-11 budget papers stated this was a 'Victorian Transport Plan initiative and contributes to the Department of Transport's Public Transport Infrastructure Development output.'[399]

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392 Sir Rod Eddington, *Investing in Transport* (2008), p.1
393 ibid., p.212
394 ibid., p.15
395 Victorian State Government, *Victorian Transport Plan* (2008), p.12
396 ibid., p.13
397 Department of Treasury and Finance, *Budget Paper No.5: 2010-11 Service Delivery* (2010), p.353
398 ibid., p.14; Also appeared previously in the *2008-09 Budget Update* (2008), p.153
399 Department of Treasury and Finance, *Budget Paper No.5: 2010-11 Service Delivery* (2010), Appendix A, p.355

The 2011-12 Budget continued to list the *Melbourne Metro rail tunnel* project as a current project to be Commonwealth-funded.[400]

The 2012-13 Budget contained the *Melbourne Metro – planning and development (metro various)* asset initiative, with a TEI of $49.7 million.[401] A one-off grant from the Commonwealth 'for planning a proposed rail tunnel between South Kensington and South Yarra' of $40 million was also listed in that year's budget papers.[402] The budget papers noted that the $40 million was for planning and development, and the project's continuation was subject to further construction funding from the Commonwealth Government.[403]

In the 2013-14 Budget, the *Melbourne Metro rail tunnel – planning and development – stage 1 (metro various)* was listed as a completed project under the Commonwealth-funded projects heading.[404] *The Melbourne Metro rail tunnel – planning and development (metro various)*, was listed as an existing project, although no funding had been spent and TEI remained at $49.7 million.[405]

In the 2014-15 Budget, the *Melbourne Rail Link (metro various)* was listed as a new project, with a TEI ranging from $8.5-$11 billion.[406] The budget papers stated the project would consist of:

> ... a new tunnel from Southern Cross Station to South Yarra via Fishermans Bend, with two new underground stations at Domain and Montague (Fishermans Bend) and new underground platforms at South Yarra Station and Southern Cross Station to enable interchange with other services. The Melbourne Rail Link will also incorporate the construction of the Airport Rail Link connecting Melbourne Airport via the Albion East route through to Southern Cross Station.[407]

$40 million was expected to be spent in 2014-15, with an estimated completion date of 2023-24.[408] On 22 July 2018, the Airport Rail was re-committed, with a cost estimate of $8-$13 billion.[409]

FINDING 57: Proposals for some form of rail tunnel linking eastern and western metropolitan Melbourne have existed since 2008. Previous iterations of the project include linking Footscray to the south eastern suburbs, connecting South Kensington to South Yarra, and incorporating an airport rail link through Southern Cross station to the project.

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400 Department of Treasury and Finance, *Budget Paper No.4: 2011-12 State Capital Program* (2011), p.104
401 Department of Treasury and Finance, *Budget Paper No.4: 2012-13 State Capital Program* (2012), p.124
402 Department of Treasury and Finance, *Budget Paper No.3: 2012-13 Statement of Finances* (2012), p.179
403 Department of Treasury and Finance, *Budget Paper No.5: 2012-13 Service Delivery* (2012), p.73
404 Department of Treasury and Finance, *Budget Paper No.4: 2013-14 State Capital Program* (2013), p.126
405 ibid., p.124
406 Department of Treasury and Finance, *Budget Paper No.4: 2014-15 State Capital Program* (2014), p.115
407 Department of Treasury and Finance, *Budget Paper No.3: 2014-15 Service* Delivery (2014), p.2
408 Department of Treasury and Finance, *Budget Paper No.4: 2014-15 State Capital Program* (2014), p.115
409 The Hon Daniel Andrews MP, Premier, *Airport rail to take off under Labour Government*, (Media release, 22 July 2018)

5.5.2 The current project

In the 2015-16 Budget the *Melbourne Rail Link (metro various)* project was listed as discontinued and replaced by the new *Melbourne Metro Rail Project (metro various)*. The project had a TEI ranging $9 to $11 billion and the estimated completion date was given as 2026.[410] The project was now identified as:

> ... a new rail tunnel with five new stations linking with the Sunbury line and Cranbourne-Pakenham line via Melbourne CBD.[411]

FINDING 58: The current plan for the *Metro Tunnel* project, whereby five stations will be built linking the Sunbury line to the Cranbourne-Pakenham line together with a total estimated investment figure and completion date for the project was published in the 2015-16 budget papers.

Melbourne Metro Tunnel (metro marious)

In the 2016-17 Budget, further information and changes were made to the *Melbourne Metro Tunnel (metro various)* project, whereby the TEI was fixed at $10.9 billion and the estimated completion date of quarter 4, 2025-26 was given.[412]

The 2017-18 Budget, announced the *Metro Tunnel (metropolitan various)* project would comprise 'four key works packages'.[413] At this point the TEI of the project increased to $11.0 billion, 'due to a change in project scope, [including] a reallocation of the High Capacity Signalling Trial funding provided in the 2015-16 Budget to support high capacity signalling on the Metro Tunnel project'.[414] The Committee discussed high capacity signalling and the various changes to this project's budget and scope in its *Report on the 2016-17 Financial and Performance Outcomes*.[415]

Table 5.3 shows the four packages of work that comprise the *Metro Tunnel* project, the procurement models used for the various packages and value.

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410 Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), p.98

411 Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.42

412 Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.114

413 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.13

414 ibid., p.123

415 Public Accounts and Estimates Committee, *Report on the 2016-17 Financial and Performance Outcomes* (2018), pp.104-8

Table 5.3 Four works packages comprising the *Metro Tunnel* project

Package	Status[a]	Procurement Model	Value	Detail
Early Works Managing Contractor Arrangement	Awarded to John Holland	Managing Contractorp	$324 million – $356 million[b]	Utility service relocations and works to prepare construction sites.
Tunnel and Stations Public Private Partnership	Awarded to Cross Yarra Partnership	Availability based Public Private Partnership	$5.24 billion [c]	Design and construction of the twin nine kilometre tunnels under the CBD, five underground stations and certain maintenance services.
Rail Systems Alliance	Awarded to CPB Contractors and Bombardier Transport with Metro Trains as the operator	Competitive Alliance	$1.12 billion [d]	Design (conventional signalling, high capacity signalling, train and power control systems and operational control systems), installation works, rail systems integration and commissioning along the *Metro Tunnel* project alignment.
Rail Infrastructure Alliance	Consortium of John Holland, CPB contractors and AECOM (Preferred bidder)	Competitive Alliance	$1 billion [e]	Works at the eastern and western portals including cut and cover tunnelling, decline structures, turnbacks and local reconfiguration and realignment of existing lines

(a) Melbourne Metro Rail Authority, *Tunnel and Stations Public Private Partnership – Project Summary* (February 2018), p.5

(b) John Holland, M*etro Tunnel Early Works* <www.johnholland.com.au/our-projects/metro-tunnel-early-works>, viewed 6 August 2018; Tenders Victoria, *Contract 369888*

(c) Tenders Victoria, *Contract 426652*

(d) Tenders Victoria, *Contract 426695*

(e) Australia & New Zealand Infrastructure Pipeline, *MELBOURNE METRO TUNNEL - RAIL INFRASTRUCTURE ALLIANCE* <www.infrastructurepipeline.org/project/melbourne-metro-tunnel---rail-infrastructure-alliance>, viewed 6 August 2018

According to the publicly available tender documentation contained in Table 5.3, the combined value of the four works packages that comprise the *Metro Tunnel* project is $7.7 billion. The Committee was unable to find further information to reconcile the project costs to reach the widely publicised $11 billion TEI figure for the project.[416]

The Minister for Public Transport was asked by the Committee at the public hearing to advise of the full budget, including construction, project management, governance, advertising and marketing, risk and preprocurement (i.e. preparation of tenders and specifications) components of all High Value, High Risk (HVHR) projects in Budget Paper No.4. The Minister explained that:

> ... full budget breakdowns are unable to be disclosed due to this information being commercial in confidence or commercially sensitive.[417]

416 Department of Treasury and Finance, *Metro Tunnel project* <https://www.dtf.vic.gov.au/partnerships-victoria-ppp-projects/metro-tunnel-project>, viewed 23 July 2018

417 Hon Jacinta Allan, Minister for Public Transport, *Response to the Committee's 2018-19 Budget Estimates Questions on Notice*, received 29 June 2018, p.2

FINDING 59: While the total estimated investment figure for the *Metro Tunnel* project in the 2018-19 Budget is $11.0 billion, public documentation on the four works packages that comprise the project only amounts to $7.7 billion.

Changing composition of the total estimates investment figure for the *Metro Tunnel* project

The TEI for the *Metro Tunnel* project has changed considerably not only since a tunnel project was first announced in 2008, but since the current project was first budgeted in 2015-16. As part of the 2018-19 Budget, further revisions were made to the TEI for the project, with the removal of $73.5 million which was deemed an operating cost as opposed to a capital cost, and the addition of $35 million for 'High Capacity Signalling Equipment on board new trains allocated in the 2017-18 Budget Update'.[418] A note in the 2018-19 budget papers also states the project's TEI excludes 'financing costs,' although this has not changed the overall TEI of the project.

The Committee notes that project TEIs listed in the budget papers are based on estimates and actual expenditure per project is not provided. The Committee has found the TEI can change significantly from year to year.

In light of the current historically high level of government infrastructure investment and the number of large scale infrastructure projects underway, the Committee believes it would be useful if the Department of Treasury and Finance develop reporting mechanisms for the actual expenditure on asset initiatives based on cash flows, in addition to the estimates provided, to allow for variance analysis.

FINDING 60: The projects costs that make up the total estimated investment figure for the *Metro Tunnel* project have significantly varied since it was first announced in 2015-16. The 2018-19 budget papers state operating costs have been removed and financing costs are not included in the $11 billion total estimated investment figure.

RECOMMENDATION 10: The Department of Treasury and Finance develop reporting mechanisms to be published in *Budget Paper No.4: State Capital Program* for large asset initiatives that use cash flow information and/or actual expenditure, in addition to the existing estimates provided.

5.5.3 Modifications to the *Metro Tunnel* project

Over the course of this Parliament the Committee has found that infrastructure projects, and specifically those related to the *Metro Tunnel*, the *Level Crossing Removal Program* ($6.7 billion TEI) and *High Capacity Metro Trains* ($2.2 billion TEI) projects, have been repeatedly modified in scope, resulting in funding and completion date changes. For example, when rail signalling projects were examined as part of the inquiry into the 2016-17 financial and performance outcomes, the Committee found the *Conventional Signalling Upgrade – Caulfield*

418 Department of Treasury and Finance, *Budget Paper No.4: 2018-19 State Capital Program* (2018), pp.137-8

to Dandenong project's TEI increased from $360.0 million to $608.3 million in one year, before it was subsequently merged to form part of the larger *High Capacity Metro Trains* project.[419]

At this year's hearings, the Committee was told of further realignments to the *Metro Tunnel* project with other major infrastructure projects currently underway. The Minister for Public Transport explained the increasing convergence between the *Level Crossing Removal Program*, *High Capacity Metro Trains* and *Metro Tunnel* projects to the Committee:

> ... in addition to the core level crossing removal program. Where we have gone in and disrupted, if you like, the rail network, we thought, 'Well, if we're in there and we're doing the work, we may as well do a lot more', and that is why, particularly for the power and the signalling work across the network—it needs to be upgraded—we have been doing that in those areas ...
>
> Another example of where we added to the program is at Carrum. Not only are we getting rid of level crossings around Carrum; we are also building a new road bridge at Station Street in Carrum over the Patterson River ... Where we can we are also adding in features like bike cycling and walking paths, extra train stabling, open space and car parking—all these things are going into the program. Beyond what was initially developed and conceived as a level crossing removal program, has become really a significant enhancement and investment in the metropolitan train network as well ...
>
> This [road upgrades and bridge building at Carrum] is again another example of where we are going beyond the initial scope of the level crossing removal program, and it is also as a consequence of the work that we are doing on the Metro Tunnel. I mentioned earlier that the Metro Tunnel will give us the capacity to run more trains on the Frankston line. To run more trains on the Frankston line we need to provide stabling for more trains on that line ... It is not really in an appropriate location, so we are opening up that space in Carrum and we have identified a site at Kananook to relocate the stabling to—but not just the current six; we are expanding the stabling along that Frankston line to 24 and that will give us the capacity to run those additional services on the Frankston line. It will come as a consequence of us both removing level crossings and delivering the Metro Tunnel program.[420]

The Committee noted the lack of an overarching transport plan for Victoria in its last inquiry report.[421]

FINDING 61: Works undertaken as part of and related to the *Metro Tunnel*, the *Level Crossing Removal Program* and *High Capacity Metro Trains* infrastructure projects are becoming increasingly blurred with multiple changes to the funding estimates, project scope and timing of projects. The ability to assess the outcomes of individual project components and accountability of each project owner subsequently becomes more difficult to ascertain.

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419 Public Accounts and Estimates Committee, *Report on the 2016-17 Financial and Performance Outcomes* (2018), pp.104-8

420 Hon Jacinta Allan, Minister for Public Transport, *Budget Estimates 2018-19 Transcript of Evidence*, 30 May 2018, pp.12-3

421 Public Accounts and Estimates Committee, *Report on the 2016-17 Financial and Performance Outcomes* (2018), pp.108-10

Ownership and accountability

In addition to changes in project scope, changes to the structure of government entities for the delivery and ownership of public transport infrastructure can cloud the ability to trace project costs and delivery timelines. For example, once the *Metro Tunnel* project is completed it will be owned by PNFC entity VicTrack.[422] However, the government entity Rail Projects Victoria (formerly Melbourne Metro Rail Authority) is currently responsible for its delivery.[423]

Mr Evan Tattersall, the Acting Coordinator General, Major Transport Infrastructure Program within the Department of Economic Development, Jobs, Transport and Resources explained the recent changes to the rail authority delivering the *Metro Tunnel* project to the Committee at the estimates hearing:

> Rail Projects Victoria is the renamed Melbourne Metro Rail Authority, and it is delivering the Metro Tunnel project—the $11 billion project—and it is delivering all the regional rail revival work, $1.7 billion, and we are also now looking at the front end of this new swathe of projects—the airport link, the faster rail, services to the regions, electrical extensions of the network—in conjunction with Transport for Victoria.[424]

FINDING 62: The Melbourne Metro Rail Authority is now called Rail Projects Victoria and the number of infrastructure projects the entity is delivering has been expanded to include the $1.7 billion *Regional Rail Revival* project in addition to the *Metro Tunnel* and other rail services related projects.

5.6 Asset investments in Victoria's creative industries

The 2018-19 Budget comprises two outputs for the Creative Industries portfolio*: Creative Industries Access, Development and Innovation* ($80.6 million) and *Creative Industries Portfolio Agencies* ($378.8 million).[425] These outputs include allocation of funds to asset-based projects, the redevelopment of the Australian Centre for the Moving Image (ACMI) and plans to revitalise the Melbourne Arts Precinct. Both projects will continue beyond the current budget. Another recent asset investment in Victoria's creative industries is the redevelopment of the State Library of Victoria, referred to as *Vision 2020*, which was announced in 2015 and is scheduled for completion in 2020.[426]

Key funding sources for such asset investments are typically drawn from the Victorian Government and philanthropic donations. This is common in the creative industries, with arts patrons and other donors making significant contributions to the sector in Victoria, as they do elsewhere in Australia and

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422 Department of Treasury and Finance, *Budget Paper No.4: 2018-19 State Capital Program* (2018), p.6

423 Metro Tunnel, *Project Delivery* <https://www.metrotunnel.vic.gov.au/about-the-project/project-delivery>, viewed 23 July 2018

424 Evan Tattersall, CEO, Acting Coordinator-General, Major Transport Infrastructure Program, *Budget Estimates 2018-19 Transcript of Evidence*, 30 May 2018, p.30

425 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.121

426 State Library Victoria, *State Library Victoria welcomes significant funding announcement*, 20 April 2016 <https://www.slv.vic.gov.au/interact-with-us/media-centre/state-library-victoria-welcomes-significant-funding-announcement>, viewed 31 August 2018

internationally. Historically, Australian creative organisations and facilities were substantially funded by governments, although donations are now increasingly the major source of funding.[427] Donors play an important role in the realisation of such projects, and can provide financial strength to facilitate a sustainable planning platform and eventual completion.[428] A common strategy to source donations for specific projects is a capital campaign, which refers to a planned mobilisation by an organisation to generate community support and contributions within a specified timeframe.[429] The use of this strategy was evident in the *Vision 2020* project. While the ACMI and Melbourne Arts Precinct projects will both rely on philanthropic donations, there has been no indication at this stage how donations will be sought. These three asset investments are discussed further below.

5.6.1 *Vision 2020*

In the 2015-16 Budget, the Victorian Government committed $55.4 million to the State Library Victoria's $83.1 million *Vision 2020* redevelopment project.[430] The project includes refurbishing the Library's heritage spaces and reopening and restoring Queen's Hall and the Russell Street entrance; creating new spaces for children and families, teenagers, and entrepreneurs and start-ups; and reinventing the Library's services with new technologies to promote digital literacy and creativity for all Victorians.[431]

At the time of the Government's funding announcement, it was identified that the additional $28 million would be raised through philanthropic donations.[432] Since this time and the launch of the *Vision 2020 Appeal*, funds to the value of $26.5 million have been sourced from various major donors.[433] The Victorian Government also committed an additional $5 million to the project in December 2016.[434]

At the time of receiving the last donation, the Minister for Creative Industries announced that the fundraising goal had been achieved and it 'is a great example of how collaborative approaches can provide a successful and a sustainable way to

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427 Jennifer Radbourne and Kenneth Watkins , *Philanthropy and the Arts* (2015), pp.2-3

428 ibid., p.xxiv

429 ibid., p.150

430 Hon Martin Foley MP, Minister for Creative Industries, *2015-16 Budget Estimates Transcript of Evidence*, 19 May 2015, p.3; State Library of Victoria, *Timeline*, <https://vision2020.slv.vic.gov.au/about-the-project/timeline>, viewed 29 June 2018

431 ibid.; Invest Victoria, *State Library Victoria Vision 2020 redevelopment* <https://www.invest.vic.gov.au/opportunities/major-infrastructure-projects/state-library-victoria-vision-2020-redevelopment>, viewed 3 July 2018

432 Hon Martin Foley MP, Minister for Creative Industries, *2015-16 Budget Estimates Transcript of Evidence*, 19 May 2015, p.4; State Library of Victoria, *Timeline*, <https://vision2020.slv.vic.gov.au/about-the-project/timeline>, viewed 29 June 2018

433 State Library of Victoria, *Vision 2020 – Donors* <https://vision2020.slv.vic.gov.au/about-the-project/donors>, viewed 29 August 2018

434 Hon Martin Foley MP, Minister for Creative Industries, *2015-16 Budget Estimates Transcript of Evidence*, 19 May 2015, p.4; State Library of Victoria, *Timeline*, <https://vision2020.slv.vic.gov.au/about-the-project/timeline>, viewed 29 June 2018

generate funding for new and innovative projects'.[435] The Committee understands that the State Library will continue to source philanthropic funds for *Vision 2020*, with Kate Torney, the CEO of State Library Victoria, specifically identifying the value of such ongoing support to ensure delivery of new programs and services, and to build and preserve the Library's collection.[436]

5.6.2 Australian Centre for the Moving Image

According to the 2018-19 budget papers, the Victorian Government allocated under asset initiatives $34.8 over two years to redevelop ACMI, including $11.5 million in 2018-19 and $23.3 million in 2019-2020.[437] This funding is in addition to $5 million already provided by the Victorian Government and it is expected that another $5 million will be raised from philanthropic sources. The Committee notes there is no publicly available information about which philanthropic groups or patrons will be targeted or whether there will be a broader public donation campaign.

The ACMI redevelopment project includes:

- redeveloping ACMI's permanent exhibition
- expanding the Learning Centre to cater for double the number of students
- a new Audience Lab where the screen industry can prototype and test ideas
- a Digital Preservation Lab to showcase the very best film and digital content
- new interactive and immersive technologies embedded across the Centre.[438]

The redevelopment will result in ACMI closing for nine months from early 2019, while also creating 100 jobs during the construction period. Visitor numbers are expected to increase by 50 per cent to around two million each year.[439] The Committee acknowledges that this is a necessary output given that visitor numbers at ACMI fell in 2016-17 to 1.3 million from 1.4 million in the previous year, and the Centre also posted a loss of $488,000 in 2016-17.[440] The Committee notes, however, that based on existing performance measures in the budget papers, the success of this output will be difficult to determine. The measure of 'users/attendances at all agencies' under *Creative Industries Portfolio Agencies*

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435 State Library of Victoria, *Hansen Little Foundation gives $3.5 million gift of connection*, 4 September 2017, <https://vision2020.slv.vic.gov.au/news/hansen-little-foundation-gives-3-5-million-gift-of-connection>, viewed 28 June 2018

436 ibid.

437 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.27

438 Hon Martin Foley MP, Minister for Creative Industries, *ACMI revamp to drive jobs, tourism and creativity*, (Media release 11 April 2018)

439 Adam Carey, ACMI to shut for nine months for first major revamp in 20 years', *The Age*, '11 April 2018, <https://www.theage.com.au/politics/victoria/acmi-to-shut-for-nine-months-for-first-major-revamp-in-20-years-20180411-p4z8xg.html>, viewed 4 September 2018; Hon Martin Foley MP, *ACMI revamp to drive jobs, tourism and creativity*, (Media release 11 April 2018)

440 Hannah Francis, 'NGV and Museums Victoria post record attendances, while ACMI slips', *Sydney Morning Herald*, 21 September 2017, <https://www.smh.com.au/entertainment/art-and-design/ngv-and-museums-victoria-post-record-attendances-while-acmi-slips-20170921-gym2i9.html>, viewed 4 September 2018

applies to all agencies collectively,[441] and increases or decreases in visitor attendances to ACMI will not be reported. While the Committee understands that the cultural and social contribution of creative facilities to the community cannot be measured solely by attendance rates, it suggests that in future visitor numbers to individual facilities be identified. The Victorian Government may also wish to consider other ways to measure the contributions of creative facilities to the Victorian community to potentially reflect visitor satisfaction and broader awareness of the arts in Victoria.

FINDING 63: There is no publicly available information about which philanthropic groups or patrons will be targeted or whether there will be a broader public donation campaign for the Australian Centre for the Moving Image redevelopment.

FINDING 64: The success of the Australian Centre for the Moving Image output will be difficult to determine as the budget paper performance measure of 'users/attendances at all agencies' under *Creative Industries Portfolio Agencies* applies to all agencies collectively.

RECOMMENDATION 11: The performance measure identifying attendance at creative facilities be amended to allow for attendance at individual facilities to be identified.

RECOMMENDATION 12: A performance measure be added to the budget papers that gauges the contribution of creative facilities to Victoria beyond attendance levels to reflect for instance visitor satisfaction or awareness of the arts in Victoria.

5.6.3 Melbourne Arts Precinct

The second creative industries asset investment in the 2018-19 Budget is the revitalisation of the Melbourne Arts Precinct, the centrepiece of which will be the eventual development of National Gallery Victoria (NGV) Contemporary on the Carlton & United Breweries (CUB) building in Southbank. In the long-term, the project will also include upgrading theatres and public spaces at the Arts Centre Melbourne, and transforming 1 City Road into a new creative hub and home to the Australian Performing Arts Gallery; an expanded Australian Music Vault; administrative, education and research facilities; and a new centre for independent arts organisations.[442]

Under the 2018-19 Budget, the Victorian Government invested $208 million into the first phase of the project, which included purchasing the CUB building.[443] The investment will also facilitate planning of the project and enable the two key arts organisations, NGV and Arts Centre Melbourne, to begin raising philanthropic funds for the redevelopment. While the Government has not indicated how much the project will cost, nor the amount required from

441 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.134

442 Hon Daniel Andrews MP, Premier, *Once-in-a-generation transformation of arts precinct*, (Media release 3 June 2018)

443 Hon Martin Foley MP, Minister for Creative Industries, *2018-19 Budget Estimates Transcript of Evidence*, 12 June 2018, p.3

philanthropic funds, there was speculation in the media that the 'NGV needs to raise another $200 million from donors'.[444] Premier Andrews also indicated a heavy reliance on private donations:

> We are more than hopeful, in fact we're certain that Melbourne's wonderful philanthropic community, those that have supported art and culture ... will rise to the challenge and be a partner in this.
>
> I think that very substantial amounts of money will be sourced from very generous Victorians and others from right across the country.[445]

The Committee is aware that this revitalisation project is not a new initiative but has been proposed by previous Victorian Governments since 2003.[446] The Victorian Arts Centre Trust referred in its Annual Report 2007-08 to the *Southbank Cultural Precinct Redevelopment* project, indicating that the Victorian Government had appointed architects to work with it to 'develop a master plan to integrate the Art's Centre redevelopment proposals, with the broader precinct initiatives of the Southbank Plan and development of the vacant Young Men's Christian Association site for cultural purposes'.[447] Further, the former Victorian Government under Premier Baillieu launched a similar concept in 2011, releasing the blueprint for the precinct in 2014. It identified key sites ready for potential development, including the Victorian Police Stables, the Defence Force's Victoria Barracks, the CUB building and the neighbouring vacant lot of Crown Land at 1 City Road.[448] The Police Stables have since been turned into a teaching and learning facility as part of the Victorian College of the Arts.[449]

In the 2018-19 budget estimates hearings, the Committee inquired how the Victorian Government's revitalisation plans differ from previous governments' plans, and how the current plan will be implemented. The Minister for Creative Industries indicated that the real difference is the allocation of $208 million in the current budget, which will 'kickstart the design, the delivery and, when it comes to the Arts Centre Melbourne, in particular, some real, breaking of ground, necessary work'.[450]

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444 Debbie Cuthbertson, 'The art of philanthropy, or how to raise a few hundred million dollars', *Sydney Morning Herald*, 8 June 2018, < https://www.smh.com.au/entertainment/art-and-design/the-art-of-philanthropy-or-how-to-raise-a-few-hundred-million-dollars-20180607-p4zk16.html>, viewed 4 September 2018

445 Noel Towell, 'Government to rely on generous donors to fund arts precinct dream', *The Age*, 3 June 2018, <https://www.theage.com.au/politics/victoria/government-to-rely-on-generous-donors-to-fund-arts-precinct-dream-20180603-p4zj64.html>, viewed 4 September 2018

446 Debbie Cutherbertson, 'Victoria Barracks embraced in Southbank arts blueprint', *Sydney Morning Herald*, 12 February 2014, <https://www.smh.com.au/entertainment/art-and-design/victoria-barracks-embraced-in-southbank-arts-blueprint-20140211-32g38.html>, viewed 4 September 2018

447 Victorian Arts Centre Trust, *Annual Report 2007-08*, p.33

448 Debbie Cuthbertson, 'What's next for the Melbourne Arts Precinct', *Canberra Times*, '26 April 2018, <https://www.smh.com.au/entertainment/art-and-design/what-s-next-for-the-melbourne-arts-precinct-20180417-p4za5w.html>, viewed 4 September 2018

449 ibid.

450 Hon Martin Foley MP, Minister for Creative Industries, *2018-19 Budget Estimates Transcript of Evidence*, 12 June 2018, p.5

When the Committee asked Minister for Creative Industries about the location of the $208 million in the 2018-2019 budget papers, he advised that the largest proportion is reflected in the purchase of the CUB site, which was held in contingencies. He also indicated that $24 million had been itemised under critical maintenance and other performance measures in the Budget.[451] The Minister was further asked to clarify the specific location of the investment in the Budget Papers, to which he responded:

> On the 3rd of June 2018 the Victorian Government announced an initial commitment of $208 million to support the first phase of the Arts precinct redevelopment.
>
> The commitment includes funding to support project planning, design and critical works as well as the purchase cost of the CUB building.
>
> The purchase price of the building is commercial in confidence and cannot be made public.[452]

The Minister for Creative Industries presentation to the Committee referred to the $208 million as an asset and output initiative. However, the Committee notes that it is not listed as such in the budget papers. There is also a concern that similar to previous Victorian Government plans to redevelop the Arts Precinct, the current project will unlikely eventuate on the scale envisaged without significant government funding attached to it. Despite the strong support and ongoing commitment of philanthropic donors to the arts in Victoria, this source of funding alone is unlikely to ensure the delivery of the project.

FINDING 65: Successive State Governments have discussed the revitalisation of the Melbourne Arts Precinct for over 15 years. Further funding for the revitalisation has been announced but not included in the 2018-19 budget papers. The project is thought to require both government and philanthropic funding.

451 ibid.

452 Hon Martin Foley MP, Minister for Creative Industries, *Response to the Committee's 2018-19 Budget Estimates Questions on Notice*, received 20 July 2018, p.1

6 Performance measures

Key findings

- There is significant variation between departments in the mix and average number of performance measures per output indicating a risk that some departments have not implemented the performance management framework optimally. The Department of Education and Training has the lowest proportion of timeliness measures and exhibits the least balanced set of indicators.
- The Department of Economic Development, Jobs, Transport and Resources has yet to sufficiently address the Committee's 2017-18 recommendation to include performance measures in the budget papers that capture the key elements of the latest Public Transport Victoria *myki* performance framework.
- There are 13 new measures in total across six departments that do not provide a sufficiently comprehensive picture of performance. The measures encompass issues such as random drug tests in prisons, training courses for health professionals in sexual and reproductive health and the release of notifications to the community about environmental hazards.
- The new performance measure for the *North East Link* project lacks transparency as it may not reflect performance against the original milestones in instances where they have been revised. Consequently, there is a risk the measure will always report that the target has been met even if the original milestones have been varied because of project delays. The same deficient measure is also in place for the *Ballarat Line Upgrade* and *Metro Tunnel* projects.
- The Committee found that there is a risk some targets in the budget papers have been set artificially low, and that others may be too high leading to perverse incentives to falsify and/or over report performance.
- The budget papers do not provide transparent insights into the performance of private prisons funded by the State and of the impact of recent and new funding initiatives to reduce unmet demand for child protection services.
- Performance measures for Major Projects as well as gambling and liquor regulation within the budget papers do not provide comprehensive and transparent insights into the performance of all funded activities.

6.1 Introduction

Effective performance measurement and reporting is essential for transparency and ensuring that Government and the public service are accountable to Parliament.

A well-functioning performance measurement system supports transparency by setting clear and unambiguous goals for departments at the start of the financial year. Information on the performance measurement framework in the budget papers communicate these goals, including why they are important to Parliament and the community.

Performance reporting allows Parliament and the public to understand what occurred during the year. Directly comparing what happened to what was intended at the start of the year also enables departments to explain any variances to stakeholders. This is a critical element of accountability.

This chapter examines implementation of Victoria's performance management framework by departments. Specifically, it discusses:

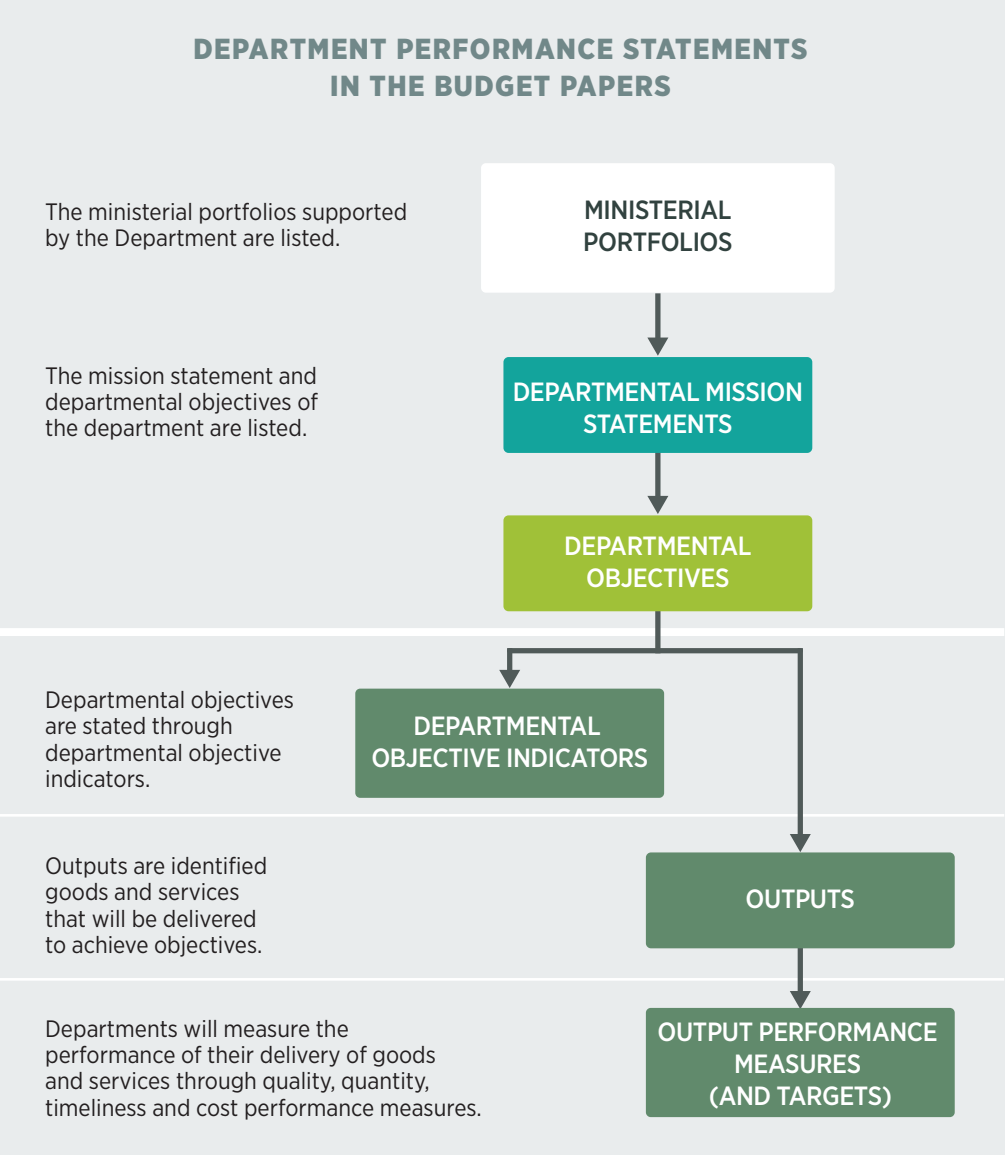
- the comprehensiveness of performance measures and changes to outputs for 2018-19 (section 6.3)
- new performance measures (section 6.4)
- shortcomings with performance measures identified by the Committee during its inquiry (section 6.5).

This chapter also examines performance measures proposed for discontinuation in 2018-19 and those which the Committee considers should be retained (section 6.6).

6.2 Department performance statements in the budget papers

Each year, departmental performance statements are published in chapter two of *Budget Paper No. 3: Service Delivery*. Figure 6.1 presents the information provided by each department.

Figure 6.1 Information on performance statements in the budget papers



Source: Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.115

6.3 Snapshot of 2018-19 outputs and performance measures

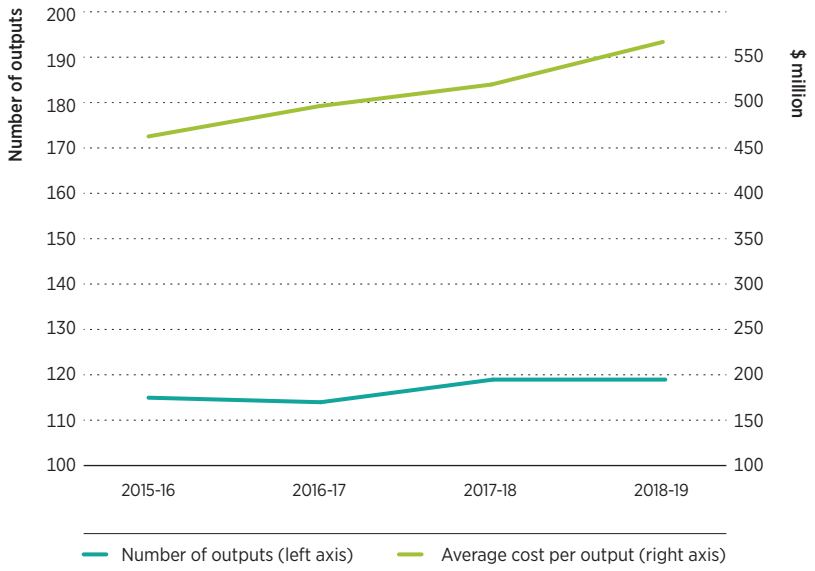
Changes to outputs for 2018-19

The 2018-19 budget papers reveal no new outputs or significant changes to departments' output structures in 2018-19.[453] The total number of outputs remains unchanged at 119 compared to 2017-18. Additionally, the Committee notes that although total output expenditure has increased by more than 26 per cent over the last four years, the total number of outputs has remained relatively stable and increased by only 3.5 per cent during the same period.

453 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.115

Figure 6.2 shows that the number of outputs remained unchanged in 2018-19, whereas the long-term upward trend in the average cost per output, previously noted by the Committee in its *Report on the 2016-17 Budget Estimates,* [454] has continued.

Figure 6.2 **Average cost[(a)] per output and number of outputs by department, 2015-16 to 2018-19**



(a) Target total output cost, Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018)

Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.3: Service Delivery, 2018-19* (2018)

The *Performance Management Framework for Victorian Government Departments* states that:

> An output should not be so large that it reduces transparency and accountability. Outputs should be specified at a level that will:
>
> - assist government to determine the outputs it will purchase
> - best inform central government decision making (i.e. Cabinet and sub-committees)
> - be consistent with the view of outputs used by departments and agencies for internal resource management
> - provide effective reporting to Parliament and stakeholders (e.g. service advocates)
> - enable government to determine whether the goods and services it purchases from departments provide value and contribute to departmental objectives.[455]

In its *Report on the 2016-17 Budget Estimates*, the Committee also noted that a 'higher number of smaller outputs would provide a greater level of transparency, as it reveals greater disaggregated information about more specific government activities.'[456]

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454 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), p.194

455 ibid., p.16

456 ibid., p.194

During the public hearings the Committee referred to the Minister for Finance's initiatives over recent years to reform the performance management framework including departmental performance statements.[457]

The Committee queried the Department of Treasury and Finance's progress in reforming the output system. The Minister's prior remarks during his 2015-16 estimates hearing whereby the Minister highlighted the need to disaggregate outputs and improve performance measures was noted.[458] In May 2015, the Minister for Finance told the Committee:

> The capacity to make resource allocation decisions and hold departments to account is being reduced by poor specification of outputs and a gradual aggregation of activities into larger outputs. There were about 350 outputs when Victoria first introduced output budgeting in 1997–98, appropriation has grown almost fourfold and the number of outputs reduced by more than half.[459]

Specifically, the Committee drew attention to the significant cost of the following three outputs whose combined target value equates to approximately 34 per cent of the State's total output expenditure for 2018-19:

- $11.2 billion for the Department of Health and Human Services' admitted services output
- $5.7 billion and $4.5 billion for the Department of Education and Training's School education—primary; and School education—secondary outputs respectively.[460]

In its *Report on the 2016-17 Financial and Performance Outcomes*, the Committee recommended that the Department of Health and Human Services and the Department of Education and Training further disaggregate these three large cost outputs.[461]

In response, the Secretary of the Department of Treasury and Finance advised the Committee at this year's budget estimates hearings that:

> ... there has been quite a bit of work the department has undertaken, particularly around the veracity of the performance measures. You will see in each budget there is a range of performance measures that are proposed to be discontinued to essentially be replaced by measures that are a bit more meaningful. Sometimes the right performance measure is a qualitative performance measure, not necessarily a quantitative performance measure, because sometimes quantitative performance measures lead to perverse outcomes and perverse behaviour. There has been quite

457 Mr David Morris MP, Deputy Chair, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence,* 12 June 2018, p.20

458 ibid.

459 Hon Robin Scott MP, Minister for Finance, *2015-16 Budget Estimates Transcript of Evidence*, 14 May 2015, p.2

460 Mr David Morris MP, Deputy Chair, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence,* 12 June 2018, p.20

461 Public Accounts and Estimates Committee, *Report on the 2016-17 Financial and Performance Outcomes* (2018), Recommendation 3, p.69

a bit of work undertaken both by my department but also with the other departments to try and improve the performance reporting framework that is articulated in budget paper 3.[462]

FINDING 66: The number of outputs across the Departments in the 2018-19 Budget remains unchanged from the previous year. The long-term upward trend in the average cost per output, which has been previously noted by the Committee, has continued.

Comprehensiveness of performance measures

Analysis of the 2018-19 budget papers shows that there is significant variation between departments with respect to the mix and average number of performance measures per output. Figure 6.3 indicates there is a risk that some departments have a less balanced suite of measures than others.

Figure 6.3 Distribution of non-cost measures by department, 2018-19

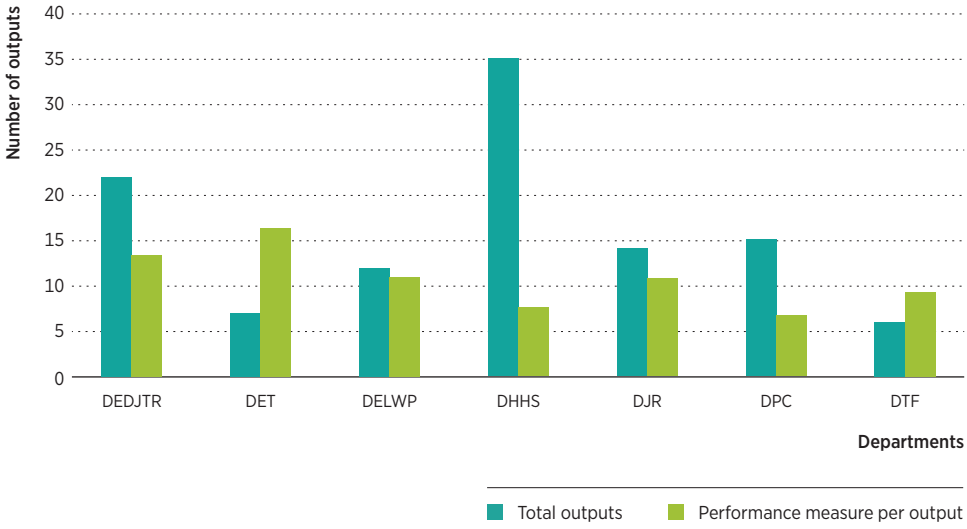
Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No. 3: 2018-19 Service Delivery,* (2018)

Specifically, the Departments of Education and Training; Health and Human Services; Justice and Regulation and Economic Development, Jobs, Transport, and Resources all have, on average, more quantity and less timeliness measures than most other departments. The Department of Education and Training has the lowest proportion of timeliness measures meaning it exhibits the least balanced set of indicators.

Similarly, Figure 6.4 shows that the Departments of Premier and Cabinet, Treasury and Finance and Health and Human Services have fewer performance measures on average per output compared to other departments.

462 Mr David Martine, Secretary, Department of Treasury and Finance, *2018-19 Budget Estimates Transcript of Evidence*, 12 June 2018, p.20

Figure 6.4 Total number of outputs and average number of performance measures per output by department[(a)], 2018-19



(a) Excludes Parliament and Court Services Victoria

Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No. 3: 2018-19 Service Delivery* (2018)

Although the Department of Justice and Regulation has half the output budget of the Department of Education and Training in 2018-19, it has twice the number of outputs and 34 more performance measures which accounts for its comparatively lower average number of performance measures per output.

Following this, the Committee notes that there is a risk that some departments have not implemented the performance management framework optimally.

The *Performance Management Framework for Victorian Government Departments* notes that:

> The mix of quality, quantity, timeliness and cost measures for each output should give a balanced and complete performance picture of what the output is trying to achieve and how the delivery of the output will be measured.[463]

FINDING 67: There is significant variation between departments in the mix and average number of performance measures per output indicating a risk that some departments have not implemented the performance management framework optimally. The Department of Education and Training has the lowest proportion of timeliness measures and exhibits the least balanced set of indicators.

RECOMMENDATION 13: Departments should review their performance measures to ensure they give a balanced and complete performance picture of what the output is trying to achieve.

463 Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.55

6.4 New performance measures

6.4.1 Overview of key changes in performance measures since the 2017-18 Budget

The 2018-19 budget papers include 1,189 non-cost performance measures, representing a net increase of 61 since the 2017-18 budget papers.

Following a recommendation in the Committee's *Report on the 2017-18 Budget Estimates*, the 2018-19 Budget re-instated three performance measures. Appendix A of Budget Paper No.3 shows that a total of 48 measures are proposed to be discontinued.[464]

The 2018-19 budget papers include 110 new performance measures. Table 6.1 shows that the Department of Economic Development, Jobs, Transport and Resources together with the Department of Environment, Land, Water and Planning account for almost half of all the new measures.

Within the Department of Economic Development, Jobs, Transport and Resources, several new measures commonly relate to new government initiatives such as the regulatory frameworks for labour hire services, commercial passenger vehicles and the *North East Link* project. Similarly, new performance measures within the Department of Environment, Land, Water and Planning typically relate to the government's priorities for improving housing affordability, reducing bush fire safety risks and responding to the recommendations of the Victorian Cladding Taskforce.

Table 6.1 Number of new performance measures by department, 2018-19

Department	Number of new measures	Per cent
Economic Development, Jobs, Transport and Resources	27	24.5
Education and Training	10	9.1
Environment, Land, Water and Planning	26	23.6
Health and Human Services	9	8.2
Justice and Regulation	14	12.7
Premier and Cabinet	19	17.3
Treasury and Finance	5	4.5
Parliament	–	–
Court Services Victoria	–	–
Total	**110**	**100**

Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No. 3: 2018-19 Service Delivery* (2018)

464 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.355

The Committee's analysis of the comments accompanying the new performance measures in the budget papers indicates that they are comprised of:

- 20 measures that are related to new funding initiatives, programs or activities
- 61 measures that provide additional information about existing services
- 26 measures that are identified as replacing a single previous measure
- three measures that replace two or more previous measures.[465]

FINDING 68: The 2018-19 budget papers include 1,189 non-cost performance measures, representing a net increase of 61 since the 2017-18 Budget papers. Eighty one new performance measures relate to new funding for activities or new information about existing activities.

6.4.2 Analysis of new performance measures

The Committee noted that most of the new performance measures—69 of the new measures, almost two-thirds—provide useful insights into the performance of funded activities. However, the remaining 41 (approximately 37 per cent) had weaknesses that limited transparency and accountability for performance.

Of these problematic new measures, the Committee found that:

- 33 per cent had targets that lacked clarity regarding the performance expected from funded activities
- 25 per cent did not provide a sufficiently comprehensive picture of performance
- 20 per cent of new measures and/or targets were not sufficiently challenging
- 18 per cent lacked relevance to the performance attribute being measured
- four per cent did not yet have a fully developed target or measurement framework.

Target lacks transparency

There are 17 new measures in total across four departments whose targets are not sufficiently clear on the standard of performance expected from funded activities. The following examples highlight the most common issues relating to these measures.

In terms of examples where funded activities whose contribution to the target is unclear, reducing transparency and Parliament's ability to assess performance:

- Two performance measures relating to the Department of Economic Development, Jobs, Transport and Resources' tourism outputs, Visitors: regional Victoria (intrastate overnight) and Visitor expenditure: regional

465 Committee calculations based on Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), pp.115-354

> Victoria (intrastate overnight), have targets of $13.6 million and $4.6 billion respectively.[466] The Department's response to the Committee's questionnaire states that the targets take both historical patterns and expected policy outcomes from marketing initiatives into account.[467] However, the budget papers do not clarify to what extent the marketing initiatives contribute to the targets set.

In terms of examples where the budget papers do not demonstrate the target is sufficiently challenging:

- Two measures relating to the Department of Economic Development, Jobs, Transport and Resources' Integrated Transport outputs, *Ballarat Line Upgrade – planning and development*: Milestones delivered in accordance with agreed budget and timelines and *Melbourne Metro Rail Project – planning and development*: Milestones delivered in accordance with agreed budget and timelines, each have targets of 100 per cent. The wording of the measures indicates a risk that the target is dynamic in nature and may not reflect the original milestones in instances where they have been varied. This would reduce transparency and impede Parliament's ability to scrutinise the projects' performance.

The *Performance Management Framework for Victorian Government Departments* indicates that 'targets … of 100 per cent should be avoided in most cases as they have no capacity to demonstrate continuous improvement from year to year and may not be sufficiently challenging.'[468] In the previous Parliament, the Committee recommended in its 2014 *Review of the Performance Measurement and Reporting System* that:

> … the Department of Treasury and Finance pay particular attention to measures with targets of 100 per cent, to ensure these measures are appropriately challenging.[469]

The then Government supported this recommendation.[470] In the Committee's *Report on the 2017-18 Budget Estimates* tabled in October 2017, the Committee recommended that:

> The Department of the Treasury and Finance reject the use of 100 per cent targets for performance measures in the next update of the *Performance Management Framework for Victorian Government Departments*.[471]

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466 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.137

467 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire*, received 4 May 2018, p.31

468 Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2017), p.56

469 Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System* (2014), p.56

470 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Review of the Performance Measurement and Reporting System*, tabled 18 September 2014, p.12

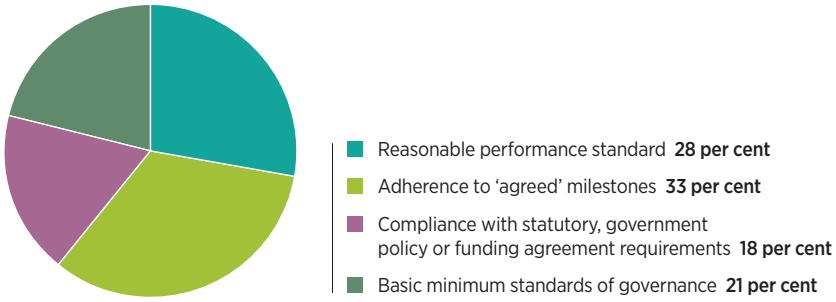
471 Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), Recommendation 12, p.155

This was not supported by the Government, which noted:

> ... there are circumstances in which an output performance target of '100 per cent' sets a reasonable service performance standard. For example, to drive response times for infectious disease outbreaks (Health Protection output, Department of Health and Human Services), or the treatment of Category 1 emergency health services (Emergency Services output [Department of Justice and Regulation]).[472]

The Committee's analysis of the 2018-19 budget papers found that they contain 138 performance measures, or approximately 12 per cent, which have a target of 100 per cent, which is the same proportion of such measures found in the previous Committee's 2014 review. The Committee's analysis of the 100 per cent target performance measures in this year's budget papers reveal that the majority of these measures—around 72 per cent—do not set a reasonable performance standard.

Figure 6.5 **Performance attributes measured by 100 per cent targets in the 2018-19 budget papers**



Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No. 3: 2018-19 Service Delivery* (2018)

Figure 6.5 shows that 33 per cent of measures with a target of 100 per cent relate to adherence with 'agreed' milestones exhibiting the weaknesses outlined above. Almost two-fifths (39 per cent) are similarly problematic as they reflect basic minimum standards of governance, including compliance with statutory, policy or funding agreement requirements. These are minimum rather than challenging performance standards that do not drive continuous improvement. Examples of such measures in the 2018-19 budget papers, whose 100 per cent target has been consistently met year on year, include:

- completion of annual reporting and board appointment processes in accordance with legislation
- statutory obligations of Water Corporations and Catchment Management Authorities complied with, including annual reports, audits and corporate plans
- Victoria Grants Commission allocations finalised to support the completion of council budgets within statutory timeframes

472 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2017-18 Budget Estimates*, tabled 30 April 2018, p.6

- Budget Update, Financial Report for the State of Victoria, Mid-Year Financial Report, and Quarterly Financial Reports are transmitted by legislated timelines
- *Roadside Weeds and Pests* program grant payments made within 21 days of completion of agreed milestones in the funding agreement.

FINDING 69: The 2018-19 budget papers contain 138 performance measures or 12 per cent which have a target of 100 per cent. The proportion of such measures has remained relatively unchanged since 2014 despite repeated recommendations from the Committee to reduce the inappropriate use of such measures. The Committee's analysis of the 2018-19 budget papers reveals that the majority of these measures—72 per cent—do not set a reasonable performance standard.

RECOMMENDATION 14: The Department of Treasury and Finance review all performance measures with a target of 100 per cent and, where appropriate, work with relevant departments to replace these in the 2019-20 Budget with more meaningful and challenging performance metrics that drive continuous improvement.

Measures and targets that do not provide a comprehensive picture of performance

There are 13 new measures in total across six departments which do not provide a sufficiently comprehensive picture of performance. The following examples highlight the most common issues relating to these measures.

The performance measure is limited and does not address all material aspects of performance

The Department of Economic Development, Jobs, Transport and Resources introduced a new measure, *myki* device availability, in the 2018-19 budget papers following the Committee's recommendation in last year's budget estimates report to include measures in the budget papers capturing key elements of the new $700 million *myki* contract and related performance framework.[473] Although the new measure provides limited insight into one aspect of *myki*'s performance, it does not capture all key elements of the new performance framework which includes a focus on:

- service disruption
- customer experience
- service responsiveness
- flexible performance requirements
- business performance indicators.[474]

473 Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), Recommendation 17, p.168

474 Victorian Auditor-General's Office, *Follow Up of Selected 2014–15 Performance Audits* (2017), p.28

Consequently, the Department has yet to sufficiently address the Committee's 2017-18 recommendation.

The Victorian Auditor-General's 2017 *Follow Up of Selected 2014–15 Performance Audits* found residual risks with Public Transport Victoria's implementation of the new *myki* performance measurement regime:

> The effectiveness and the integrity of the performance regime, and PTV's [Public Transport Victoria] ability to determine incentive payments and penalty abatements accurately, will depend on how PTV monitors the service provider's performance, enforces the performance regime and manages the *myki* contract.[475]

More comprehensive measures in the budget papers would assist Parliament to scrutinise Public Transport Victoria's related performance.

FINDING 70: The Department of Economic Development, Jobs, Transport and Resources has yet to sufficiently address the Committee's 2017-18 recommendation to include performance measures in the budget papers that capture the key elements of the latest Public Transport Victoria *myki* performance framework.

RECOMMENDATION 15: The Department of Economic Development, Jobs, Transport and Resources include additional performance measures in the budget papers that more comprehensively capture the key elements of the latest *myki* contract and performance regime.

The target or approach to performance measurement limits insights from the measure

- The Department of Environment, Land, Water and Planning introduced a new measure, environment condition notifications provided to Victorians via digital channels, intended to reflect the Environment Protection Authority's performance in equipping Victorians with information about hazards in their environment. However, the Department's response to the Committee's questionnaire reveals that the new metric is limited to measuring the number of 'tweets' issued only, meaning it does not provide a comprehensive view of the notifications provided to Victorians via all digital channels.
- The Department of Health and Human Services introduced a new measure, number of training courses for health professionals in sexual and reproductive health, to monitor the number of courses delivered by organisations funded by the Department. Although the new measure provides some insight into the quantity of training provided, additional quality and timeliness measures would enhance Parliament's ability to scrutinise performance.
- The Department of Justice and Regulation introduced a new measure, percentage of positive random drug tests, to provide an indicator of the proportion of random drug tests collected in prison that return a positive or

475 ibid., p.30

positive-equivalent result. However, the measure lacks comprehensiveness as it offers no insight into the extent and coverage of prisoner testing. It measures the incidence of positive test results, which the Department's response to the Committee's questionnaire indicates already sits at around the target number of five per cent. This raises questions about the utility of the target. Additional metrics around the extent and timeliness of testing would provide Parliament with more useful insights into the adequacy of drug control initiatives within prisons.

- Other examples can be found in the Department of Premier and Cabinet and the Department of Education and Training's responses to the Committee's questionnaire.[476]

FINDING 71: There are 13 new measures in total across six departments that do not provide a sufficiently comprehensive picture of performance. The measures encompass issues such as random drug tests in prisons, training courses for health professionals in sexual and reproductive health and the release of notifications to the community about environmental hazards.

RECOMMENDATION 16: The Department of Treasury and Finance work with departments to review and strengthen the comprehensiveness of performance measures in the budget papers to ensure they provide balanced insights into the performance of all material aspects of funded activities.

Measures and targets that are not sufficiently challenging

There are 10 new measures in total across two departments that do not establish a sufficiently challenging standard of performance. The following examples highlight the most common issues relating to these measures.

Targets focused on 'agreed' milestones risk measuring performance against basic minimum standards

- The Department of Economic Development, Jobs, Transport and Resources introduced a new measure, *North East Link* project – milestones delivered in accordance with agreed budget and timelines, to monitor the progress of planned major infrastructure procurement activities undertaken by the

476 The Department of Premier and Cabinet introduced a new measure, data projects completed and delivered, which the Department's response to the Committee's questionnaire indicates aims to ensure that the Victorian Centre for Data Insights delivers quality outcomes to stakeholders in a timely manner. (Department of Premier and Cabinet, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire,* received 11 May 2018). However, the new measure's focus on counting the delivery of projects only means it offers no insights on the extent to which quality outcomes were delivered in a timely manner. Hence, additional quality and timeliness performance measures in the budget papers would address this gap.

The Department of Education and Training introduced a new measure, number of Digital Assessment Library items developed, to assess how successful it has been in developing and deploying assessment items for the Digital Assessment Library. The Department's response to the Committee's questionnaire states that the library has been designed to provide comprehensive and widespread coverage of the Victorian curriculum across key learning areas and capabilities for F-10 across all schools and sectors. (Department of Education and Training, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire,* received 8 May 2018). However, the measure's focus on counting the number of items developed means it provides no information on how comprehensively they address the curriculum.

North East Link Authority.[477] The Committee notes that this measure is similar in nature to the *Ballarat Line Upgrade* and *Metro Tunnel* projects—all of which have targets of 100 per cent. They are also all at odds with the recommendation made by the Committee in last year's budget estimates report to the department to discontinue 'milestone' metrics for large scale infrastructure projects.[478] This was supported in principle by the Government, stating in the response to the Committee's recommendation that, 'as these asset projects reach maturity and move into a service delivery phase, the Department [of Economic Development, Jobs, Transport and Resources] will continue to investigate mechanisms for reporting on service improvement, particularly through Budget Paper No. 3.'[479] As discussed earlier, these measures lack transparency because they may not reflect performance against the original milestones in instances where they have been revised. Consequently, there is a risk the measures will always report that the target has been met even if the original milestones have been varied because of project delays. As also noted earlier, the Committee's review of the budget papers revealed that these measures are used extensively by departments and consistently report, year on year, that the 100 per cent target has been fully achieved.

- The Department of Environment, Water, Land and Planning introduced two new measures,[480] building permits inspected by the Victorian Building Authority to identify use of noncompliant cladding materials and building audits undertaken by the Victoria Building Authority to identify use of noncompliant cladding materials. The new measures reflect the Government's priority to respond to the recommendations of the Victorian Cladding Taskforce and have targets of five per cent and 275 audits respectively. The new measures are directly relevant to the challenges highlighted by the taskforce but neither the budget papers nor the Department's response to the Committee's questionnaire clarify the basis upon which the targets have been set and why they are considered sufficiently challenging.

FINDING 72: There are 10 new measures in total across two departments that do not establish a sufficiently challenging standard of performance.

FINDING 73: The new performance measure for the *North East Link* project lacks transparency as it may not reflect performance against the original milestones in instances where they have been revised. Consequently, there is a risk the measure will always report that the target has been met even if the original milestones have been varied because of project delays. The same deficient measure is also in place for the *Ballarat Line Upgrade* and *Metro Tunnel* projects.

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477 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.157

478 Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), Recommendation 14, p.157

479 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Review of the 2017-18 Budget Estimates*, tabled 31 October 2017, p.7

480 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.217

RECOMMENDATION 17: The Department of Treasury and Finance review the performance measures in the budget papers and consider establishing a system for certifying targets proposed by departments to assure they are sufficiently challenging, and that the basis for these decisions is documented in the budget papers.

Measure lacks relevance to the performance attribute being measured

There are nine new measures in total across five departments that lack relevance to the attribute being measured. The following examples highlight the most common issues relating to these measures.

- The Department of Economic Development, Jobs, Transport and Resources introduced a new measure, progress with delivery of a Metropolitan Intermodal System – percentage of project funding expended, to report on progress towards delivering the Port Rail Shuttle Network for Melbourne. The measure has a target of 20 per cent. However, there is a risk that the new measure's focus on reporting the 'proportion of funds expended' does not correlate precisely with progress against original delivery milestones. In its current form, the proposed new quantitative measure provides almost no transparency on the adequacy of progress of this initiative.
- The Department of Environment, Water, Land and Planning introduced a new measure, inspections of newly built homes during construction for compliance with energy efficiency requirements, which has a target of 1,150 inspections. The Department's response to the Committee's questionnaire indicates the measure aims to provide information on non-compliance with the energy efficiency requirements and help to inform future actions to address it.[481] However, the Committee notes that because the measure is a purely activity-based metric it cannot meet its intended purpose. Specifically, the new measure provides no information on non-compliance with the energy efficiency requirements given it only measures the number of inspections undertaken, not the outcome.
- The Department of Justice and Regulation introduced a new measure, number of youth referrals, to measure the number of young people referred on to support services reflecting the Government focus on reducing youth recidivism. Neither the budget papers nor the Department's response to the Committee's questionnaire clarify the method of data collection for this metric. Although the measure tracks the absolute number of referrals, it does not provide transparent insights into the performance of Victoria Police in referring young people at highest risk of recidivism.
- The Department of Treasury and Finance introduced a new measure, number of HVHR (High Value, High Risk) project assurance plans in place which has a target of 15 assurance plans. The Department's response to the Committee's questionnaire indicates that the measure reflects the project assurance workload of the branch. However, the budget papers do not clarify the intended purpose and utility of this metric. Although it is intended to

481 Department of Environment, Land, Water and Planning, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire,* received 11 May 2018, p.26

measure the number of plans in place, the Department's response indicates the target is based on a prediction that is informed by historical numbers of HVHR projects.[482] It is unclear how this measure will result in meaningful or useful information for Parliament.

FINDING 74: There are nine new measures in total across five departments that lack relevance to the attribute being measured. The performance measures relate to compliance of new homes with energy efficiency requirements, referrals of young people at high risk to support services and assurance plans for high value, high risk projects.

Targets and measurement frameworks not yet developed

The Department of Economic Development, Jobs, Transport and Resources introduced two new measures whose measurement framework or targets had yet to be finalised at the time the 2018-19 budget papers were published, reducing transparency on the performance expected from these funded activities. These measures are:

- Education and compliance inspections of providers/users conducted under the Labour Hire Licensing Scheme—the Department's response to the Committee's questionnaire states that performance measure will report on the number of inspections conducted by the Licensing Authority to educate providers/users and ensure compliance under the new Scheme. The target of 200 inspections includes individual site visits and information forums for prospective licence holders. It further notes that the Labour Hire Licensing Bill 2017 seeks to introduce the Scheme to regulate the provision of labour hire services in Victoria and that the measure is contingent on the passage of the Bill through the Victorian Parliament and resourcing available to the Licensing Authority.
- Commercial passenger vehicle industry participants conform to key safety requirements—this performance measure is proposed to replace the 2017-18 performance measure, taxi and hire vehicle compliance and enforcement interventions, which the budget papers show does not yet have a defined target. The Department's response to the Committee's questionnaire notes that the new performance measure reflects Government priorities outlined in the *Commercial Passenger Vehicle Industry Amendment (Further Reforms) Act 2017* (Vic) and that the target will be set following introduction of the proposed new Commercial Passenger Vehicle Industry regulations.[483]

The Committee noted the target's absence during the public hearings and queried the Minister for Public Transport on its status noting that the new regulatory framework for the Commercial Passenger Vehicle Industry was expected to be operational by 1 July 2018.[484]

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482 Department of Treasury and Finance, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire,* received 9 May 2018, p.23

483 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire,* received 4 May 2018, p.37

484 Hon Fiona Pattern MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 30 May 2018 p.32

The Minister explained to the Committee that the target was being finalised as part of ongoing work to establish the new regulatory framework:

> As a result of the significant legislative change that went through the Parliament last year, there have been a whole lot of regulations that have been enacted or are currently in the process of being enacted to operationalise that legislation, and it does include how we can address standards around safety, whether it is safety for drivers or safety for passengers as well. That work is ongoing, as I understand it, and there has been a lot of negotiation with industry as well, getting their feedback as to how we can improve services for passengers.[485]

In response to follow-up questions from the Committee, the Department of Economic Development, Jobs, Transport and Resources advised that following the introduction of regulatory reforms on 2 July 2018, the 2018-19 target for the performance measure will be 90 per cent of commercial passenger vehicle industry participants conform to key safety requirements.[486]

FINDING 75: The 2018-19 budget papers identify two performance measures whose measurement framework or targets were subject to regulatory reforms.

6.5 Shortcomings with performance measurement

The Committee queried the adequacy of several performance measures at the estimates hearings, particularly their related targets. Consistent with prior years, the Committee found cases where:

- targets lack meaning or do not reflect changes in funding
- targets are not sufficiently challenging or, conversely, may be set at a level that risks encouraging perverse behaviour
- performance measures are absent from the budget papers despite substantial public interest and expenditure
- the measure and/or target does not comprehensively address the full range of activities funded by the output.

6.5.1 Targets lack meaning or do not reflect changes in funding

The Committee highlighted the limitations of measures for gender equality and the prevention of family violence programs during the estimates hearing with the Minister for Women:

485 Hon Jacinta Allen, Minister for Public Transport, *2018-19 Budget Estimates Transcript of Evidence,* 30 May 2018, p.32

486 Correspondence from the Hon Robin Scott MP, Minister for Finance, to Chair, Public Accounts and Estimates Committee, received 23 July 2018

> I've raised questions in the past regarding the quality of output and outcome measures. It really goes without saying that if you don't get those measures right, and if they're not focusing on meaningful outcomes, then it really limits how much can be achieved by any project or across any department ...
>
> The quality measures here are that 100 per cent of contracts deliver agreed outcomes and that policy papers and family violence prevention projects are delivered on time.
>
> These should be basic standards, not high level performance measures.[487]

A Committee member similarly queried measures relating to the *Victorian Gas Program*,[488] noting that the budget papers do not clarify the reasons why the 2017-18 timeliness target of 100 per cent for the 'delivery of key milestones consistent with agreed timeliness' was not achieved.[489] The Minister for Resources advised that 'it is simply an issue of timing of the commencement of the program', which is scheduled for completion at the end of 2018.[490]

When discussing the Government's new $172 million initiative to make training at Technical and Further Education (TAFE) free for 30 priority courses,[491] the Committee also queried why the budget papers show the target number of subsidised course enrolments in the TAFE network is expected to only increase by around 1,000 in the year.[492] The Committee considers that there is a risk this target does not adequately reflect the substantial increase in funding and potential increase in demand.

The Minister for Training and Skills responded by confirming the target would be adjusted as necessary following the Department of Education and Training's review of the *Skills First* initiative in time for the 2019-20 Budget:

> So my thinking at the moment is just to have that figure remain the way it is for this period of time not because of any value decision. It is primarily because this review is taking place, and then I want to be able to have a conversation with the Minister for Finance. Once we have got some more evidence about where we are sitting with Skills First and some sort of indication of how free TAFE is going, to then adjust that target in an evidence-based way.[493]

FINDING 76: The Committee identified several measures whose targets lacked meaning either because they do not provide a transparent picture of performance or drive continuous improvement.

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487 Hon Harriet Shing MLC on behalf of Hon Sue Pennicuik MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 14 June 2018, p.8

488 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.128

489 Mr Tim Smith MP, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.5

490 Hon Tim Pallas MP, Minister for Resources, *2018-19 Budget Estimates Transcript of Evidence*, 15 May 2018, p.5

491 Department of Treasury and Finance, *Victorian Budget: 2018-19 Budget Overview* (2018), p.18

492 Hon Sue Pennicuik MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 17 May 2018, p.9

493 Hon Gayle Tierney, Minister for Training and Skills, *2018-19 Budget Estimates Transcript of Evidence*, 17 May 2018, p.9

6.5.2 Targets are not sufficiently challenging or are set at a level that risks encouraging perverse behaviour

The Committee notes that the 2018-19 Budget provides for a more than four-fold increase in output funding for Lesbian, Gay, Bisexual, Transgender, Queer and Intersex (LGBTI) programs and events, but that the target for engaging members of the community has increased by only 10 per cent.[494]

In response to a related query from a Committee member,[495] the Minister for Equality indicated a preference for setting targets low which the Committee member subsequently questioned:

> In terms of our target and actuals, we are quite keen to see the actuals continue to outstrip the targets … pretty much underpromise and overachieve is the philosophical approach in this portfolio.[496]

The Deputy Secretary, Social Policy Group, Department of Premier and Cabinet further advised that:

> One of the benefits of the program so far has been empowering communities and building capacity to run their own programs as well, so you will see a lot of follow up events that have happened after the commissioner has been out on the roadshow.[497]

The Committee observed that the budget papers do not clarify whether the engagement expected from all LGBTI events and related initiatives funded in the 2018-19 Budget has been adequately factored into the 2018-19 performance target.

Similarly, during the public hearings with the Minister for Police, a Committee member queried the veracity and limitations of performance measures relating to preliminary breath tests (PBTs) following recent admissions by Victoria Police[498] that around 258,000 such tests had been falsified by police in recent years:

> I just wonder, and I ask this genuinely, how accurate these performance measures actually are, given that we know there were 250 000 over the last five years, with some police reporting, going back as far as 15 years, that they have been doing these 'falsies' or 'ghosties' as they call them. I wondered whether these figures on page 272 are actually accurate and how you know whether they are or they are not. In particular, the last performance measure on page 272, regarding the proportion of drivers who comply with alcohol limits—there is a very high measurement there.[499]

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494 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.311

495 Hon Fiona Pattern MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 12 June 2018 p.7

496 Hon Martin Foley, Minister for Equality, *2018-19 Budget Estimates Transcript of Evidence*, 12 June 2018 p.7

497 Ms Rebecca Falkingham, Deputy Secretary, Social Policy Group, Department of Premier and Cabinet, *2018-19 Budget Estimates Transcript of Evidence*, 12 June 2018 p.7

498 Assistant Commissioner Russell Barrett, Press Conference, 30 May 2018

499 Hon Sue Pennicuik MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 13 June 2018, p.22

Both the Minister for Police[500] and Chief Commissioner[501] informed the Committee that the targets relating to drug and alcohol testing shown in the budget papers were unaffected by the falsified tests. The Minister also noted that Victoria Police already exceed the target:

> Firstly, the 1.1 million test that is currently in the performance measures for 17–18: governments in the past have just set targets in relation to the booze and drug buses, and there is absolutely no doubt that there were no false PBTs at all at those operations.
>
> However, the reason [the target] has gone to 3.5, on advice from Victoria Police, is that they currently do 4.5 million tests across the state. So, yes, if 258 000 over five and a half years is too many—one too many—they easily meet the target of 1.1 and they are certainly well above the 3.5 million target.[502]

The Committee further queried the Minister on whether the targets for roadside drug and alcohol testing had contributed to the problem by creating perverse incentives for police to falsify tests.[503] The Minister confirmed that the targets were being examined as part of a broader investigation into the issue by Victoria Police but were regarded as an important deterrent and aspect of Victoria's road safety strategy:

> Whether there is a question around broader targets, the independent investigation will have a look at that, but I think it is absolutely reasonable. What we do know is that a Victorian who thinks they will be pulled over for drink driving is a deterrent. The target set by the road policing experts is that we want to be able to say to Victorians, 'Every Victorian will get pulled over—4 million Victorians will be pulled over for alcohol testing because we know it saves lives'.[504]

FINDING 77: The Committee found that that there is a risk some targets in the budget papers have been set artificially low, and that others may be too high leading to perverse incentives to falsify and/or over report performance.

RECOMMENDATION 18: That the Department of Treasury and Finance, in consultation with all other departments and the Victorian Auditor-General, establish arrangements for systematically reviewing and assuring the adequacy of controls in place within agencies for reporting relevant, appropriate and accurate performance information to Parliament against targets set in the budget papers.

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500 Hon Lisa Neville, Minister for Police, *2018-19 Budget Estimates Transcript of Evidence*, 13 June 2018, p.22

501 Chief Commissioner Graham Ashton, Victoria Police, *2018-19 Budget Estimates Transcript of Evidence*, 13 June 2018, p.22

502 Hon Lisa Neville, Minister for Police, *2018-19 Budget Estimates Transcript of Evidence*, 13 June 2018, p.22

503 Hon Sue Pennicuik MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 13 June 2018, p.22

504 Hon Lisa Neville, Minister for Police, *2018-19 Budget Estimates Transcript of Evidence*, 13 June 2018, p.22

6.5.3 Performance measures are absent from the budget papers despite substantial public interest and expenditure

At the estimates hearings with the Minister for Corrections, the Committee drew attention to the performance measures in the budget papers for private prisons noting they were limited and indicate contractual benchmarks were consistently unmet in recent years.[505] A Committee member observed that the footnotes in the budget papers do not provide details on the specific performance attributes of private operators contributing to reported results.[506]

The Acting Commissioner, Corrections Victoria, advised the Committee that it was mainly due to pressures on the prison system because of an increasing remand population and high prisoner turnover that was impacting service delivery:

> There are a couple of reasons for it. One is certainly the complexity of the prisoner population … and the churn in the system or the throughput in the system is a big part of it as well. To let you get a better picture of that … only three or four years ago—we were averaging about 7000 receptions into the system on an annual basis; we are now at well over 10 000.
>
> … some of them will pick up sentences and some will not, but those who are on remand are on remand for very short periods, and it is that constant turnover which is difficult. It impacts on things like assaults and self-harming incidents and a range of other things.[507]

The Committee suggested that expanding the number of performance measures in the budget papers would improve transparency[508] noting that the Victorian Auditor-General recently found that the limited information in the Department of Justice and Regulation's annual report and budget papers offers little insight into the performance of individual prisons, including private prisons:

> Aside from ad hoc reviews or investigations by other integrity bodies such as the Victorian Ombudsman, there is very limited information in the public domain about the performance of private prison operators. JARO [Justice Assurance and Review Office] reports are not publicly available because they provide internal assurance rather than external oversight.[509]

The Committee also notes that the Auditor-General observed that the Department of Justice and Regulation and Department of Treasury and Finance advised the Government in 2014 that they would work together to identify more suitable measures in the budget papers to improve transparency of the corrections system. However, this has yet to occur.[510]

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505 Hon Sue Pennicuik MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 17 May 2018, p.7

506 ibid.

507 Mr Rod Wise, Acting Commissioner, Corrections Victoria, *2018-19 Budget Estimates Transcript of Evidence*, 17 May 2018, p.7

508 Hon Sue Pennicuik MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 17 May 2018, p.7

509 Victorian Auditor-General's Office, *Safety and Cost-effectiveness of Private Prisons* (2018), p.39

510 ibid.

Similarly, in relation to performance measures for child protection, the Committee notes that although the 2018-19 Budget provides an additional $226 million to boost the number of child protection workers,[511] the budget papers do not provide detailed information on the level of unmet demand for child protection services.

During the estimates hearing with the Minister for Families and Children, the Secretary of the Department of Health and Human Services noted that:

> ... it is really clear that we have had substantial growth in the reports coming through to child protection ... So we have been focused on the ... the allocation rate, because it actually shows us over time what is happening in efficiency in the program. What I can inform the committee is that as a result of the recruitment ... and the additional workers that have come online earlier this year we are seeing some really positive improvements in that allocation rate.
>
> So at the end of last year ... we were sitting at around 79 per cent of cases being allocated. We are now, as of the end of April, at 85 per cent of cases being allocated, and that is up from around 81 per cent that we saw in 2014 ... It has been a product of the improvements in bringing through a pipeline of workforce staff who have been able to carry cases, and we have done a significant body of work to make sure that we are both having more student placements and better relationships with universities, so we are seeing more students come through and join the child protection program.[512]

The Committee considers that the performance information in the budget papers would be enhanced through additional measures that offer more transparent insights into the impact of funded recruitment and other initiatives on the level of unmet demand for child protection services.

FINDING 78: The budget papers do not provide transparent insights into the performance of private prisons funded by the State, and of the impact of recent and new funding initiatives to reduce unmet demand for child protection services.

RECOMMENDATION 19: The Department of Treasury and Finance, in consultation with the Department of Justice and Regulation and Department of Health and Human Services, introduce new measures in the budget papers that increase transparency of the performance of private prisons in line with the Auditor-General's recommendations, and of initiatives to reduce unmet demand for child protection services.

6.5.4 The measures and targets do not comprehensively address the full range of activities funded by the output

The Committee identified that the performance measures relating to liquor and gambling regulation in the budget papers are not transparent on the level and adequacy of compliance inspections across the different types of premises.[513]

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511 Department of Treasury and Finance, *Victorian Budget: 2018-19 Budget Overview* (2018), p.36

512 Ms Kym Peake, Secretary, Department of Health and Human Services, *2018-19 Budget Estimates Transcript of Evidence*, 31 May 2018, p.6

513 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), pp.294-5

Although the budget papers show that the target number of inspections has been reduced in 2018-19 to focus on higher risk premises that require more time-consuming inspections,[514] the Committee observed that they do not clarify what proportion of these inspections relate to either gambling or liquor premises, including Crown Casino.[515]

The Victorian Auditor-General's 2017 report, *Regulating Gambling and Liquor* found that although the Victorian Commission for Gambling and Liquor Regulation had acted to address the lack of a coherent organisation-wide approach to casino supervision across its licensing and compliance functions, it had not applied a level of focus on the casino commensurate with its status and risk as the State's largest gaming venue, and that its approach had lacked continuity.[516] The audit also found that the Commission's compliance activities were not sufficiently risk based because it had focused on meeting a target number of inspections, rather than directing inspections to where noncompliance has a high risk or high potential for harm, which does not support its legislative objectives for harm minimisation.[517]

At the estimates hearings, the Minister for Consumer Affairs, Gaming and Liquor Regulation advised the Committee that the Commission reduced the target in response to the Auditor-General's recommendation to adopt a more risk-based approach to its compliance activities.[518] The Minister also advised that:

> ... the VCGLR [Victorian Commission for Gambling and Liquor Regulation] recently established two regional hubs, one in Ararat and one in Sale. These hubs will allow the commission to enhance its compliance and education activities in regional Victoria, and we are also targeting metropolitan liquor and gambling venues as well.

The Committee believes that additional and more disaggregated measures in the budget papers would improve transparency of the Commission's regulatory activities and performance.

In relation to the performance measures concerning the Major Projects output,[519] the Committee similarly found that they do not provide transparent or useful insights on Major Projects Victoria's performance in managing the State's significant economic projects.

Specifically, the Committee observed that although the budget papers and Major Projects Victoria's website show a total of 15 non-residential projects in delivery, the associated quality and timeliness measures do not permit identifying which projects significantly exceed budget and timeliness standards, including the

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514 ibid.

515 Hon Sue Pennicuik MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 18 May 2018, p.9

516 Victorian Auditor-General's Office, *Regulating Gambling and Liquor* (2017), p.xi

517 ibid.

518 Hon Marlene Kairouz, Minister for Consumer Affairs, Gaming and Liquor Regulation, *2018-19 Budget Estimates Transcript of Evidence*, 18 May 2018, p.8

519 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.145; Major Projects Victoria is now Development Victoria

scale and significance of any variations from the related budget paper target.[520] Consequently, there is a risk that the current suite of measures in the budget papers mask poor performance.

FINDING 79: Performance measures for Major Projects as well as gambling and liquor regulation within the budget papers do not provide comprehensive and transparent insights into the performance of all funded activities.

RECOMMENDATION 20: The Department of Treasury and Finance in conjunction with the Victorian Commission for Gambling and Liquor Regulation and Major Projects Victoria review and where necessary strengthen existing performance measures in the budget papers so that they provide transparent insights into the performance of all projects and/or funded activities.

6.6 Proposed discontinued performance measures

The budget process provides the opportunity for departments to change, discontinue or replace performance measures. The *Performance Management Framework for Victorian Government Departments* outlines the circumstances in which performance measures may be changed. These include:

- machinery of Government changes
- a shift in focus of the service
- development of improved measures
- the establishment of new data sets which can collect different information.[521]

Additionally, a performance measure can be discontinued as:

- it is no longer relevant due to a change in government policy or priorities and/or departmental objectives
- projects or programs have been completed, substantially changed, or discontinued
- milestones have been met
- funding is not provided in the current budget for the continuation of the initiative
- improved measures have been identified for replacement.[522]

520 Hon Sue Pennicuik MLC, Public Accounts and Estimates Committee, *2018-19 Budget Estimates Transcript of Evidence*, 30 May 2018, p.9

521 Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (March 2016, Updated June 2017), p.23

522 ibid.

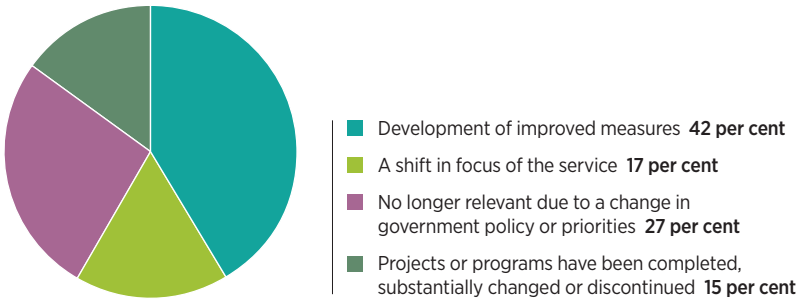
The Public Accounts and Estimates Committee plays a recognised role in this process:

> To strengthen accountability and transparency for performance management, the Public Accounts and Estimates Committee (PAEC), at the invitation of the Minister for Finance, reviews output performance measures that departments propose to discontinue or substantially change through the annual budget process.[523]

In the 2018-19 budget papers, 48 measures are proposed for discontinuation.[524]

Figure 6.6 shows that just over two-fifths (42 per cent) of proposed discontinued performance measures in the 2018-19 budget papers have been replaced by improved measures. Around 27 per cent are considered no longer relevant due to a change in government policy or priorities.

Figure 6.6 Reason for proposed discontinued measures in 2018-19 Budget



Source: Committee calculations based on *Budget Paper No.3: 2018-19 Service Delivery* (2018), Appendix A – Output Performance Measures for Review by the Public Accounts and Estimates Committee

Examples where performance measures proposed to be discontinued in the 2018-19 budget papers due to the development of improved measures include:

- the Department of Economic Development, Jobs, Transport and Resources' measure, visitors to Visit Victoria consumer websites, has been replaced with the broader measure, visit Victoria's total engaged digital audience, which more appropriately reflects wider contemporary usage of social media in line with the Committee's 2017-18 related recommendation. [525]
- the Department of Environment, Land, Water and Planning's measure, delivery of key milestones for the Powerline Bushfire Safety Work Program, which has been replaced by, cumulative length of powerlines retired in high bushfire risk areas to reduce risk of bushfires from electrical assets.[526] The new measure is an improvement over the previous one as it shifts away from the measurement of milestones to enable more transparent assessment of outcomes achieved from funded activities.

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523 ibid., pp.23-4

524 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), Appendix A – Output Performance Measures for Review by the Public Accounts and Estimates Committee, pp.355-66

525 ibid., p.356; Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), p.171

526 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), Appendix A – Output Performance Measures for Review by the Public Accounts and Estimates Committee, p.359

- The Department of Health and Human Services' measure trained alcohol and drug workers, which has been replaced by, workers complying with Alcohol and Other Drug Minimum Qualification Strategy requirements.[527] The new measure is an improvement because it extends beyond simply measuring training activity to offer insights into the number of workers meeting qualification requirements as a result.

Examples of performance measures discontinued because of a change in government policy or priorities include the Department of Economic Development, Jobs, Transport and Resources' average occupancy rate of metropolitan taxis in December (period of high service demand) and average occupancy rate of metropolitan taxis in June (period of low service demand). Significant regulatory changes introduced in the *Commercial Passenger Vehicle Industry Amendment Act 2017* (Vic) mean that occupancy rate metrics for taxis no longer provide an adequate insight into the success of the regulatory program.

6.6.1 The Committee's recommendations on proposed discontinued performance measures in the 2018-19 Budget

The Committee recommends that seven of the 48 proposed discontinued performance measures in the 2018-19 Budget be retained.

There are four proposed discontinued performance measures for the Department of Economic Development, Jobs, Transport and Resources that the Committee recommends be retained. These are:

- VicArts Grant applications processed within 45 days for Ministerial consideration, which the Department proposes to replace with the new measure, VicArts Grant acquittals assessed within 30 days of submission date.[528] The Committee believes that the discontinued measure would result in the loss of valuable information on the timeliness of grant assessments. This aspect of performance is considered important as delays in processing applications could have a significant impact on recipients. A better outcome would be to retain the existing metric and add the proposed new measure on acquittals as this would enable a more comprehensive assessment of grants management performance.
- Taxi, hire vehicles and other commercial passenger vehicle licence applications processed within 14 days, which the Department proposes to replace with the new 2018-19 performance measure, commercial Passenger Vehicle registration applications received online,[529] reflecting that licensing will be phased out and replaced with registrations under the new *Commercial Passenger Vehicle Industry Act 2017*. The Department's response to the Committee's questionnaire indicates that the new measure will assist with demonstrating the value of investment in online application systems and improved convenience for commercial passenger vehicle

527 ibid. p.361

528 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.133

529 ibid., p.153

industry licence applicants.[530] However, the Committee believes that the proposed new metric offers little insight into either the timeliness or quality of Commercial Passenger Vehicles Victoria's performance in managing applications for vehicle registration. Refocusing the proposed discontinued metric on the timeliness of vehicle registrations would enable more transparent assessment of Commercial Passenger Vehicles Victoria's related performance, particularly for registrations relating to the provision of unbooked services that in some cases can take weeks to be approved.

- Compliance inspections of managed and unmanaged Victorian waterways in accordance with risk-based plan, which the Department proposes to replace with the 2018-19 performance measure, risk assessment of managed and unmanaged Victorian waterways with high levels of boating activity and competing use, to focus on waterways with high levels of boating activity.[531] The Committee notes that the proposed discontinued measure has been in place for only one year, and that the Department's response to the Committee's questionnaire indicates that new measure reports on the same activity as the previous but expresses the result as a number rather than as a percentage.[532] The Committee believes that the proposed shift in the target away from a percentage to an absolute figure reduces transparency over the extent to which Transport Safety Victoria's annual audit plan has been acquitted making it less meaningful as a quality measure. Consequently, it is not evident that the proposed new measure improves transparency and accountability. Retaining the 2017-18 measure but adjusting the related target so that it reflects the proportion of high risk waterways inspected would be more meaningful.
- Transport and marine safety investigations: average time taken to complete investigations, which the Department proposes to replace with the 2018-19 new performance measure, transport and marine safety investigations: investigations completed within 12 months.[533] The new performance measure reports on the same activity but now reports the percentage of investigations completed within a 12 month period instead of the average time taken to complete investigations. The Department's response to the Committee questionnaire indicates that this is because the Department considers it is unclear if an investigation that, on average, takes greater than 12 months represents positive or negative performance.[534] The Committee believes that the proposed new metric limits scrutiny of Transport Safety Victoria's performance to only those investigations completed within a 12 month window resulting in the loss of visibility of investigations that exceed this timeframe. It also believes that Transport Safety Victoria has not demonstrated that the proposed new metric is superior, or that it improves transparency and accountability for performance.

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530 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire,* received 4 May 2018, p.38

531 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.165

532 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire,* received 4 May 2018, p.41

533 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.166

534 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire,* received 4 May 2018, p.42

There are three proposed discontinued performance measures put forward by the Department of Environment, Land, Water and Planning in the budget papers that the Committee recommends be retained. These are, area of revegetation protected or enhanced through departmental supported Landcare activities, habitat managed for biodiversity in Victoria and area protected from pest predators, weeds and herbivores, all of which have been replaced by the single 2018-19 proposed new measure, area treated for biodiversity conservation in priority locations.[535]

The Department's response to the Committee's questionnaire states that the proposed new measure reflects the goals within the *Protecting Victoria's Environment – Biodiversity 2037* strategy and the inter-connectedness of the reported activities.[536] In this context, priority locations, refers to identified areas across the State where the Department considers investment in actions to reduce threats will have the greatest impact on the most number of species.

However, the Committee believes that the proposed new metric reduces transparency of performance as it consolidates three former more specific measures into a single generic area-based measure. The new more aggregated measure lacks sufficient granularity and meaning because it does not permit an understanding of the sufficiency, mix and comprehensiveness of treatment actions implemented within priority areas. Consequently, there is a risk that it may mask poor performance. The Committee considers that more specific, rather than general measures, of the Department's performance towards achieving the goals of the new strategy are preferable as they offer more transparent insights to Parliament.

FINDING 80: There were 48 proposed discontinued measures in the 2018-19 Budget and the Committee recommends retaining seven of these—four Department of Economic Development, Jobs, Transport and Resources and three Department of Environment, Land, Water and Planning performance measures.

RECOMMENDATION 21: The Minister for Finance retain the seven proposed discontinued measures with suggested modifications where relevant as identified in this report.

This report was adopted by the Public Accounts and Estimates Committee at its meeting held on 3 September 2018 at Parliament of Victoria, 55 St Andrews Place, East Melbourne.

535 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.203

536 Department of Environment, Land, Water and Planning, *Response to the Committee's 2018-19 Budget Estimates General Questionnaire,* received 11 May 2018, p.24

Appendix 1
Government response to the Public Accounts and Estimates Committee's *Report on the 2017-18 Budget Estimates*

The Committee assessed the Government's response to the 35 recommendations made in its *Report on the 2017-18 Budget Estimates*. It also examined the progress made in implementing the supported recommendations. The findings are set out below.

A1.1 Economic Overview

Recommendations 1 and 2

The Committee made two recommendations, one to the Department of Treasury and Finance regarding intergenerational reporting and one to the Department of Economic Development, Jobs, Transport and Resources regarding performance measures. The Department of Treasury and Finance advised that its current long-term modelling was sufficient and intergenerational reporting was not needed.[537] Additionally, the Department noted that the decision to publish such a report is a decision for the Government. The recommended performance measures for the *Wander Victoria* campaign were supported in principle.[538] The measures were included in Budget Paper No.3 of the 2018-19 Budget.[539]

A1.2 Key aspects of the 2017-18 Budget

Recommendation 3

The Committee recommended that future budget papers include a description of transfer of fixed assets that are anticipated between the general government sector and the public non-financial corporation sector. This was supported in principle. The Government response suggested such a description is already in place.[540]

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537 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2017-18 Budget Estimates*, tabled 30 April 2018, p.2

538 ibid.

539 Department of Treasury and Finance, *Budget Paper No.3: 2018-19 Service Delivery* (2018), p.138

540 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2017-18 Budget Estimates*, tabled 30 April 2018, p.2

A1.3 Revenue

Recommendation 4

This recommendation was made in relation to dividend payments made to the State that are compiled under revenue in the financial statements. The Transport Accident Commission was expected to pay $1.5 billion to the State from 2018-19 to 2020-21, but this could not be accounted for as a dividend.[541] The Committee recommended that these payments be listed in a separate section in future years, including a list of the public entities providing them.[542]

While the recommendation was supported in principle, the list of entities providing such payments in the 2018-19 budget papers appeared in a note added to the 'Dividends by entity' table, not within the other contributions and grants line item as the Committee originally recommended.[543]

A1.4 Output expenditure

Recommendations 5 to 7

None of the recommendations made in this section were fully supported by the Government. Recommendation 5, which was supported in principle, stated that to increase accountability the Minister responsible for each element of whole-of-government initiatives should be identified within the budget papers.[544] Currently, the sections within whole-of-government initiatives that relate to a particular department are included in Budget Paper No.3, but the Minister holding ultimate responsibility is not.[545]

Recommendation 6 contained two parts, (a) and (b), both relating to the Department of Justice and Regulation.[546] The Government did not support the recommendation for the introduction of a performance measure and target for the completion of violence related programs by family violence offenders in prisons in the budget papers.[547] The Government advised that the results would not be meaningful as the numbers were low.[548] Part (b) of the recommendation, calling for the public release of the report by Professor Ogloff into the

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541 Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), p.66

542 ibid., Recommendation 4, p.67

543 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2017-18 Budget Estimates*, tabled 30 April 2018, p.2; Department of Treasury and Finance, *Budget Paper No.5: 2018-19 Statement of Finances* (2018), pp.21-2

544 Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), Recommendation 5, p.99

545 For example, see the description of the 2018-19 Budget's Whole of Government initiatives in *Budget Paper No.3: 2018-19 Service Delivery* (2018), pp.3-9

546 Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), Recommendation 6, p.100

547 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2017-18 Budget Estimates*, tabled 30 April 2018, p.3

548 ibid.

effectiveness of the *High Intensity Violence Intervention Program* and *Moderate Intensity Program*, was considered 'under review'.[549] The report has not been published on the Department of Justice and Regulation's website.

In recommendation 7, the Committee suggested the framework for the Family Violence Network be linked to relevant performance measures.[550] While this was supported in principle, the Government noted the framework is still under development.[551]

A1.5 Asset investment

Recommendations 8 to 10

The recommendations in this section relate to the impacts of large infrastructure projects in the Budget. Recommendation 8, regarding the impact of large public private partnership projects on net debt, was supported in principle.[552]

It was recommended that data from the Australian Level Crossing Assessment Model (ALCAM) be published regularly by the Level Crossing Removal Authority.[553] This recommendation has not been implemented despite being supported by the Government.[554] Data for the ALCAM has not been published on Victoria's Open Data Portal at the time of writing this report.

Recommendation 10 on public non-financial corporations' performance reporting was not supported by the Government.[555]

A1.6 Performance measures

Recommendations 11 to 20

Only one of the Committee's recommended changes to performance measures was not supported, with the majority receiving either support, in principle support or classified as 'under review'.

The two under review (recommendations 15 and 16) appear to have been considered by the Government. Progress has been made towards fully implementing recommendation 15, regarding the development of road maintenance performance measures, with a summary and detailed reports now available on the VicRoads website. Recommendation 16 concerned the list of

549 ibid.

550 Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), Recommendation 7, p.102

551 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2017-18 Budget Estimates*, tabled 30 April 2018, p.4

552 ibid.

553 Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), Recommendation 9, p.136

554 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2017-18 Budget Estimates*, tabled 30 April 2018, p.5

555 ibid.

proposed discontinued performance measures the Committee recommended be retained from the 2017-18 Budget.[556] Three performance measures, out of the 16 the Committee recommended be retained, remain as departmental performance measures. These are:

- projects delivered involving property inspections to support community-led management of invasive plant and animal priority species
- properties inspected for invasive plant and animal priority species
- delivery of key CarbonNet milestones, in line with funding agreements and agreed project deliverables.[557]

A1.7 Implementation of previous recommendations

Recommendations 21 to 22

Both recommendations were once again not supported. The Committee recommended additional details of reprioritised program funding and updating the *Corporate Planning and Performance Reporting Requirements for Government Business Enterprises* document.[558] Current reporting methods and policies were considered by the Government to be adequate in both areas.[559]

A1.8 Government Risk Management Framework

Recommendations 23 to 27

While the recommendations on the framework were supported, the revised frameworks outlined by the Department of Treasury and Finance will not be released until 2019.[560] Recommendation 24 relates to how the *Victorian Government Risk Management Framework's* effectiveness will be measured by agencies. Determining if this has occurred is not apparent from the Government response.[561]

Risk management guidance and examples of wider risk have been updated in line with Recommendations 25 and 26.[562]

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556 Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), Recommendation 11, p.154

557 Correspondence from the Hon Robin Scott MP, Minister for Finance, to Chair, Public Accounts and Estimates Committee, received 4 May 2018

558 Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), Recommendations 21 and 22, pp.184, 188

559 *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2017-18 Budget Estimates*, tabled 30 April 2018, p.10

560 ibid., p.11

561 ibid.

562 ibid., p.12

A1.9 Managing telecommunications usage and expenditure

Recommendations 28 to 31

Initial steps have been taken by the Government to implement these recommendations.[563] The State Purchase Contract TPAMS2025 provides new contracts for voice, data, mobile and internet services to improve technology in relevant departments.

A1.10 Environmental Contribution Levy

Recommendations 32 to 35

Recommendations regarding further information on the expenditure, revenue and outcomes of the Environmental Contribution Levy (ECL) have been supported.[564] The outcomes as listed have been included on the Department of Environment, Land, Water and Planning website.

Recommendations relating to the release of findings from the review of the ECL undertaken at the beginning of tranche 4 of the program, and providing the cost of the ECL to customers in their water bills, were not supported.[565] Both recommendations required a larger release of information than is currently available. The Government felt that the current data available to the public is sufficient and the release of the additional information recommended would either be inappropriate or possibly inaccurate.[566]

563 ibid., pp.13-4
564 ibid., p.17
565 ibid., p.16
566 ibid.

Minority Report

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

INQUIRY INTO THE BUDGET ESTIMATES 2018-19

MINORITY REPORT

Submitted by

David Morris MP – Deputy Chair

Danny O'Brien MP

Tim Smith MP

The Parliamentary Committees Act 2003 requires the Public Accounts and Estimates Committee to inquire into and report upon:

> *the annual estimates or receipts and payments and other Budget papers and any supplementary estimates of receipts or payments presented to the Assembly and the Council*[1]

The Committee has completed that task for the 2018-19 financial year, and the accompanying majority report represents the findings of the inquiry. The minority supports the findings and recommendations of the majority report.

Additionally, we believe the following improvements should be considered in preparing for the Estimate Hearings for the 59th Parliament.

1. Questioning and Time Limits

While the committee itself has made significant changes to the manner in which the Hearings are conducted, the Andrews Government has failed to meet its election commitment to introduce a Senate style Estimates process.

A change in the manner of questioning, from strict rotation to blocks of time has provided an opportunity to examine particular issues more closely. This is an improvement.

Unfortunately, the questioning pattern has not been accompanied by a change to the time limits on particular portfolios imposed by the Committee timetable.

Senate Committees conduct hearings without time limitations, they are able to continue until all requested evidence is received. This provides a significant advantage over the process currently followed by the Victorian Parliament as it removes the opportunity for Ministers or senior public servants to filibuster and run down the clock without actually answering the questions or providing the information sought.

In this year's hearings there were numerous examples of this tactic being applied in order to avoid providing a genuine response to the questions asked.

While a significant expansion of the time devoted to examining the Estimates is probably unwarranted, it would be helpful to provide greater flexibility in order to remove this opportunity to avoid answering questions.

A related, but separate issue is the impact these tactics have on the conduct of the hearings. The time limits imposed provide an opportunity for some members to run down the clock by raising frivolous points of order, or by interjecting loudly to disrupt the hearings and thereby require the Chair to interrupt the witness to regain control of the hearing.

These tactics raise the level of aggression in the room and diminish the opportunity for the committee to undertake its work effectively.

The application of the Standing Orders of the Legislative Assembly does not enable these issues to be addressed. Consideration should be given to developing a separate set of standing orders for public hearings of Parliamentary Committees to deal with these known issues.

2. Response to Questions on Notice

An important part of any hearing is the opportunity to have questions placed on notice. While most witnesses are able to respond to questions during the course of the hearing, on occasion the information will either not be available, or of too detailed a nature to be conveniently conveyed during the limited time available.

Most Ministers during the course of this year's estimates have endeavored to provide the information which was promised during the hearings. Several did not provide full information at the first attempt, but did so following a further request from the Committee.

Two requests for further information from the Committee warrant further scrutiny:

The Minister for Regional Development was asked to provide an estimate of grant funding unallocated as at 30 June 2018, and to provide a breakdown of departmental administrative costs from this fund. The Minister responded that the grants allocated would be outlined in Regional Development Victoria's annual report.

This was surprising to the committee as information at that level of detail has not been published in previous Annual Reports. In any case Annual Reports are published months after the completion of Estimates Hearings meaning the data sought would not be available for consideration as part of this report.

The Minister provided a percentage of administrative costs but did not provide the actual administration costs which were the subject of the question. Copies of the Committee request and the Minister’s response are available on the Committee’s website.

Despite the committee writing to the Minister and requesting further information it was not forthcoming in time to finalise the report.

Separately, the Department of Health and Human Services was asked to provide a copy of their "People Matters" survey. The Department provided the report, but requested that the information not be publicly released, effectively preventing use of the data it contains.

It is important that the Committee is able to undertake its duties unencumbered and is able to provide the appropriate level of scrutiny expected by the Parliament. If Ministers give an undertaking to the committee to provide information and then fail to do so, or departments provide information but request that it remain confidential, and therefore entirely unusable, the committee is unable to fully discharge its responsibilities.

Consideration should be given to introducing a mechanism that would compel Ministers and Departments to comply with the undertakings that are given during public hearings in a timely manner.

David Morris MP Danny O'Brien MP Tim Smith MP

Melbourne
11th September 2018