Department of Treasury and Finance

1. Questions related to the Department

Question 1

The 2015-16 budget papers (see Budget Paper No.3, p.316) indicate that the departmental objective indicator ‘Reduce regulatory burden by 25 per cent by 2014’ has been replaced by ‘Reduce the costs and barriers to doing business in Victoria, including reducing the regulatory burden.’ Please explain why the quantitative component of this indicator was removed.

Two previous indicators ‘Reduce the Costs and barriers to doing business in Victoria’ and ‘Reduce regulatory burden by 25 per cent by 2014’ were combined into one new indicator ‘Reduce the costs and barriers to doing business in Victoria, including reducing the regulatory burden’. This is noted in the footnotes (d) and (f) on pp 316-17 of Budget Paper No. 3.

Question 2

In relation to the new performance measure ‘Recommendations on financial management framework matters made by PAEC and VAGO and supported by Government are actioned’ (Budget Paper No.3, p.322), please indicate how ‘actioned’ will be defined.

A recommendation will be considered 'actioned' if the Department implements the recommendation, or has taken all the steps towards implementation.

Please explain how long a recommendation can be not actioned before it will be counted as not actioned for the purposes of this performance measure.

The Department must implement relevant recommendations, or take all the steps towards implementation, before the end of 2015-16.

Question 3

In relation to the last three years, when profits have been made by VMIA and TAC, please indicate the uses (other than being paid as dividends) to which the profits have been put.

The main sources of revenue for both the TAC and VMIA are premium income and investment income, these income streams are used to pay claims, meet administrative expenses and fund various programs.

In both organisations, profits that are not paid out as dividends are simply added to the organisation’s accumulated surplus/deficit and invested, resulting in an increase in total equity. Profits are not hypothecated to particular programs or activities.

2. Questions related to the budget estimates as a whole

Question 1

The Committee notes that, for specific-purpose grants from the Australian Government, the growth rate over the forward estimates period (-0.1 per cent per year) is expected to be significantly lower than its historical actual trend (9.5 per cent per year between 2007-08 and 2013-14).[1]

Please describe the methodology used to estimate specific purpose grants across the forward estimates period, including:

(a) how expiring grant programs affect the forecasts

(b) any contingency that is included for possible grant programs that have not been announced. If such a contingency is not included in the forecast, but in another line item, please specify where the contingency is to be found.

Estimates for specific-purpose grants incorporated into Victoria's budgets are based on the latest advice from the Commonwealth, primarily from Commonwealth budget publications, direct and specific advice from the Commonwealth, or conservative interpretations of the funding conditions for national partnership agreements. The Victorian Government does not attempt to anticipate future policy decisions of the Commonwealth.

Grants that the Commonwealth has confirmed will expire are not included in the State's budget estimates.

The Victorian budget does not contain contingencies for specific purpose grants that have yet to be announced.

Question 2

Please explain the following differences in 'Net cash flows from investments in financial assets for policy purposes' between the 2014 Pre-Election Budget Update, p.30, and 2015-16 Budget Paper No.5, p.10:

(a) the estimate for 2015-16, which moved from \$5,002.2 million to \$6,510.8 million

The movement between 2014 Pre-Election Budget Update and 2015-16 Budget in 2015-16 largely reflects the impact on the estimates of updated assumptions associated with the terms and conditions for the lease of the Port of Melbourne Corporation.

(b) the estimate for 2017-18, which moved from a cash outflow of \$163.5 million to a cash inflow of \$1,110.8 million.

The movement between 2014 Pre-Election Budget Update and 2015-16 Budget in 2017-18 largely relates to increased capital receipts from the State's Public Financial Corporations.

[1] Committee calculations based on Department of Treasury and Finance, *Consolidated comprehensive operating statement* (2015). Available at <ww.dtf.vic.gov.au/files/81eddf84-03f2-46b1-b47b-a48e0107f3de/Consolidated-GG-Comprehensive-Operating-Statement.xlsx> viewed 1 June 2015

Question 3

With regard to the 'application of cash resources for the general government sector' tables, please explain any difference in definition between: 'other investment activities' (2014 Pre-Election Budget Update, p.19) and 'other movements' (2015-16 Budget Paper No.2 p.59).

There is no difference in definition between the two publications. The wording was refined and simplified for the 2015-16 Budget.

If these items are equivalent, please explain the reason why the estimate for 2015-16 was raised from $30.8 million (2014 Pre-Election Budget Update, p.19) to $643.0 million (2015-16 Budget Paper No.2, p.59).

The increase between 2014 Pre-Election Budget Update and 2015-16 Budget represents non-cash changes in the value of net debt. This includes $339 million paid to the East West Link consortium for the bid process, design and pre-construction and a further $81 million of fees incurred to establish the Project Co credit facility.

Question 4

In relation to 'other movements in non-financial assets', as disclosed in note 15 to the financial statements (Budget Paper No.5, p.36), the budget papers state that this 'predominantly includes the transfer of fixed assets to other sectors of government and the recognition of finance lease arrangements.' The Committee notes that the forward estimates for this line item have changed considerably between the estimates in the Pre-Election Budget Update and the 2015-16 Budget. For each year, please explain what has driven the change, including details of the specific asset transfers or finance leases that have driven the change where appropriate.

Year	**PEBU estimate (p.54)**	**2015-16 Budget (p.36)**	**Explanation for change**
2015-16	183.1	-242.6	
2016-17	318.5	-1,381.0	
2017-18	275.0	-1,250.6	

The changes across the three years are primarily driven by investments in public transport assets in the Public Non-Financial sector as per the 2015-16 Budget. Specific projects can be found in the 2015-16 Budget Paper No. 4 *State Capital Program*. This is partly off-set by a reduction in finance lease arrangements as the Government replaced the delivery of the previously planned finance lease acquisition of Cranbourne-Pakenham Rail Corridor project (in 2016-17 and 2017-18), with other capital investments financed through other means of financing.

Question 5

The budget papers (Budget Paper No.5, p.9) note that cash and deposits for the general government sector are estimated to increase from a revised estimate of $4.9 billion in June 2015 to $6.2 billion in June 2019. Please explain the reasons behind this build-up.

The cash and deposit balances reflect usual budget movements in line with general government entities and outer budget agencies cash flow estimates. As a part of the State's cash management policy, these balances are continually reviewed to ensure that sufficient liquid assets are held to meet the State's borrowing obligations. The application of cash and deposits against borrowings will be reviewed as part of the 2015-16 Budget Update, with no impact on overall net debt.

Question 6

The 2015-16 budget papers indicate that the estimates for the Victorian economy in 2017-18 and 2018-19 are projections representing trend rates ('except for the unemployment rate which shows a path towards trend') (see Budget Paper No.2, p.19). Can the Department please specify which period of time it considered when calculating the trends?

Economic variable	**Assumed trend (rounded)**	**Period of trend analysis**	**Actual "trend" using analysis period (unrounded)**	**Comment**
Real gross state product	2.75	Since 1989-90	2.79%	Annual average growth since series began in 1989-90.
Employment	1.50	Since June Quarter 1978	1.58%	Equal to the long-run average growth rate since series began.
Unemployment rate	Falling to 5.75	Since December Quarter 1983	6.87%	Simple average of past values is not used. Estimate of the 'equilibrium' unemployment rate derived from econometric modelling of the natural rate of unemployment and non-accelerating inflation rate of unemployment (NAIRU), to which the projections converge by the end of the forward estimates period (This value is 5.73%).
Consumer price index	2.50	Since September Quarter 1993	2.51%	The trend of 2.50% was chosen because it is the mid-point of the RBA's inflation target band. This coincides with the average rate since inflation targeting commenced in mid-1993.
Wage price index	3.50	Since mid-1998 when WPI series started	3.41%	The average growth rate since mid-1998 (beginning of the WPI series). The trend of 3.50% is consistent with a trend growth for inflation of 2.50% and the labour share of productivity of 1.00%.
Population	1.8	Since mid-2006	1.79%	Represents the average growth since mid-2006 (8 years), rather than since 1980s when the series began. The average growth between 1981 and 2005 was 1.0%, and since 2006 the growth rate has never been below 1.4%.

Question 7

Please explain why, in contrast to last year, there is no measure for infrastructure investment (previously 'infrastructure investment of 1.3 per cent of GSP (calculated as a rolling five-year average)') as part of the 'financial measures and targets for 2015-16 Budget' (Budget Paper No.2, p.14).

The Government revised its fiscal strategy (and measures) as part of the 2015-16 Budget to more closely align with its fiscal policies and priorities.

Question 8

In relation the PNFC sector comprehensive operating statement (Budget Paper No.5, p.49), please indicate what changes to service delivery are anticipated between 2015-16 and 2016-17 leading to:

(a) revenue being expected to increase by only $21.6 million (a significantly smaller increase than in other years), largely due to sales of goods and services decreasing

There are no anticipated changes to service delivery between 2015-16 and 2016-17. The smaller increase in revenue is predominantly due to the impacts of the anticipated long term lease of the Port of Melbourne Corporation. The PNFC sector comprehensive operating statement has been adjusted to reflect this budgeted reduction in revenue, which is mainly in the sales of goods and services.

(b) expenses from transactions being expected to reduce from $10,104.9 million to $10,082.7 million (though they increase in all other years).

There are no anticipated changes to service delivery between 2015-16 and 2016-17. The reduction in expenses from transactions is predominantly due to the impacts if the anticipated long term lease of the Port of Melbourne Corporation. The PNFC sector comprehensive operating statement has been adjusted to reflect this budgeted reduction in expenses.

Question 9

In relation to infrastructure investment for the general government sector, the 2015-16 budget papers indicate that the revised estimate for total net investment in fixed assets for 2014-15 is $4,277.1 million (Budget Paper No.5, p.228). However, the Government infrastructure investment figure for 2014-15 is $4,164.5 million (Net infrastructure investment data set; Budget Paper No.2, p.44), $112.6 million lower. Please indicate what has been included in Government infrastructure investment that makes it lower than total net investment in fixed assets.

The difference between the revised estimate for total net investment in fixed assets and the Government Infrastructure Investment measure for 2014-15 largely relates to the impact of updated assumptions associated with the medium-term lease over the operations of the Port of Melbourne Corporation.

Question 10

Please indicate why the estimates for the purchase of services by the general government sector (Budget Paper No.5, p.33) are less between 2016-17 and 2018-19 than in 2015-16.

The 2015-16 figure for purchase of services by the general government sector includes the final year of State Government expenditure on Home and Community Care (HACC), prior to transferring the responsibility and funding for people aged over 65 years for this service to the Commonwealth, as

agreed under the National Disability Insurance Scheme (NDIS). Purchase of services estimates from 2016-17 onwards are lower primarily due to the transfer of this age cohort.

The HACC transfer of responsibility was agreed in May 2013 as part of the NDIS. Discussions on a transition date for HACC are ongoing but are expected to be agreed and in place prior to the start of the 2016-17 financial year.

Question 11

Please indicate what is driving the estimates for the provision of services by the general government sector (Budget Paper No.5, p.29) across the forward estimates period. In particular, please explain why this figure decreases between 2015-16 and the following year and between 2017-18 and the following year.

The reduction in provision of services revenue in 2016-17 is primarily driven by the cessation of revenue for the administration of the Advance Lignite Demonstration Program, which is managed by the State on behalf of both the State and the Commonwealth. This reduction is partially offset by an estimated increase in farebox revenue (revenue from fares). The reduction in revenue in 2018-19 relates to the expected reduction in revenue for the CarbonNet Project in that year, relative to 2017-18.

Question 12

The total balance of applied appropriations unspent for the general government sector (as disclosed in the Annual Financial Report for the State – p.183 in the 2013-14 report) has been steadily growing each year, totalling $5.1 billion as at June 30 2014. Please detail the strategy behind growing this balance, including the intended use of the funds, if any.

The total balance of applied appropriations unspent for the general government sector comprises the sum of all departments' State Administered Unit (SAU) Asset (Inter-entity) balances. Components of these balances include payables and accruals related to employee entitlements and other liabilities; as well as accumulated prior years' surpluses and depreciation equivalent revenue.

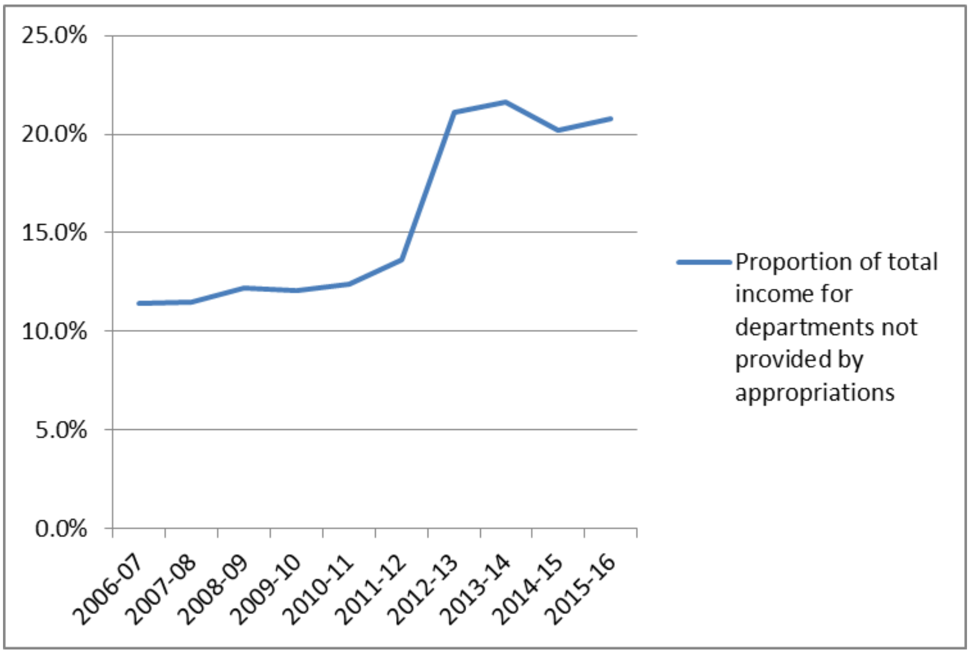
Balances for employee entitlements are a large contributor to growth over time. These are expected to grow annually consistent with increases in the value of employee entitlements due to wages and service growth; and accumulating long service leave provisions, which typically augment at a value greater than is paid out each year. These liabilities are paid out as employees leave the workforce, or otherwise draw on their leave entitlements.

Other payables, particularly related to the capital program, can also contribute to year-end SAU balances. These are generally a matter of timing, and will be progressively paid out as the payables fall due.

Amounts related to accumulated surpluses and depreciation equivalent revenue will be available as a potential funding source for future budget decisions, consistent with the financial management framework.

Question 13

The budget estimates indicate that 21 per cent of departmental income is expected to come from sources other than annual and special appropriations in 2015-16. This is similar to recent years but significantly more than had been normal prior to 2012-13 (see figure below).



Please indicate what caused the shift from these sources being between 11 and 14 per cent of departmental income (prior to 2012-13) to the higher plateau of approximately 21 per cent and why this proportion was considered appropriate in preparing the 2015-16 Budget.

The shift of sources between 11-14 per cent to the higher plateau of approximately 21 per cent, relates to the proportional increase in grants income (other sources) and a decrease in appropriation income. This proportional change to grants income is largely driven by the former Department of Health. Prior to 2012-13, payments from Commonwealth for National Health Care Specific Purpose Payment (SPP) were paid into the State's consolidated fund and then appropriated to Department of Health as annual appropriation. From 2012-13, National Health Care SPP ceased and the National Health Reform commenced and funds were paid directly into a Health Funding Pool administered by the Department of Health, as per the new agreement. This resulted in a reduction in appropriation revenue to the Department of Health but a commensurate increase in grants income.