



PARLIAMENT OF VICTORIA
Public Accounts and Estimates Committee

**Report on the 2016-17
Financial and Performance
Outcomes**

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*.

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

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
AFR	Annual Financial Report
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.
AIHW	Australian Institute of Health and Welfare
APIs	application programming interfaces
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).
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) 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’
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. The papers set out the government’s spending and revenue raising plans
CAV	Consumer Affairs Victoria
CMA	Catchment Management Authority
Consolidated Fund	The Government’s primary bank account. This account receives all revenue raised by the State or received in grants from other parties. It does not receive funds for specific purposes, for which trust accounts have been set up. The Consolidated Fund, together with the ‘Trust Fund’ forms the ‘Public Account’.

department	<p>Large government entities. Funding for most ‘agencies’ is generally provided through departments. Departments 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.</p> <p>At 6 October 2017 there were seven departments in Victoria, plus Courts Services Victoria and the Parliamentary Departments.</p>
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
DIIRD	Department of Innovation, Industry and Regional Development (former Victorian department)
DJR	Department of Justice and Regulation
DPC	Department of Premier and Cabinet
DTF	Department of Treasury and Finance
DVA	Department of Veterans Affairs (Commonwealth)
depreciation	The amount of money it would require to keep the State’s assets in the same condition as they were in the previous year. This amount is listed as an expense on the operating statement, and the cash equivalent to that amount is usually used to partially fund ‘asset investment’.
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.
EBA	Enterprise Bargaining Agreement
EDIC	Economic Development and Infrastructure Committee (former Victorian Parliamentary Committee)
entity	either a ‘department’ or an ‘agency’.
ESOs	ex-service organisations
FOI	freedom of information
forward estimates period	<p>The period for which estimates are made in the budget papers. This includes the budget year and the following three financial years.</p> <p>The forward estimates period for the 2017-18 Budget is 2017-18 to 2020-21 inclusive.</p>
FTE	full time equivalent
funds outside the Public Account	Funds held by entities that are in separate bank accounts and not in a ‘Trust Fund’ or the Consolidated Fund.

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.
GRB	gender responsive budgeting
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
HCS	high-capacity signalling
HVHR	high-value high-risk
IAR	information asset register
ICT	information and communications technology
IM	information management
IMF	information management framework
IMGC	Information Management Governance Committee
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'.
liabilities	Amounts that an organisation is obliged to pay in future years. Examples include borrowings and defined benefits superannuation plans.
LIVE	Lead, Intern, Volunteer, Experience
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.
net operating balance	See 'operating surplus/deficit'.
net result	A measure of an entity's financial performance in a year which is calculated by taking the 'net result from transactions' and then adding other economic flows, such as changes in the values of financial assets and liabilities. The net result is different to the 'net result from transactions' (see below). 'Asset investment' is not included in either the net result or the 'net result from transactions'.
net result from transactions	See 'operating balance'.
NIDs	National Interest Datasets
operating deficit	See 'operating balance'
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 and a negative result is an operating deficit. Also known as the 'net result from transactions' or 'net operating balance'. 'Asset investment' is not included in the operating balance.
operating surplus	See '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.
OVIC	Office of the Victorian Information Commissioner
PAEC	Public Accounts and Estimates Committee
payables	A 'liability' recorded on the State's balance sheet. It is not included in the calculation of net debt.

Performance Management Framework	The structure for Victorian Government departments for government and public sector planning, budgeting and service delivery, performance monitoring, reporting and accountability. It is administered by the Department of Treasury and Finance.
PFC	Public financial corporation – see ‘public financial corporations sector’.
PNFC	Public non-financial corporation – see ‘public non-financial corporations sector’.
PPP infrastructure investment	An estimate of the amount invested each year 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.
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 or 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 together. 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.
revenue initiative	Changes in policy which result in an increase in ‘revenue’. Examples include new taxes or increasing existing taxes. Revenue initiatives are usually perpetual.
SES	State Emergency Services
specific-purpose grants	Grants from the Commonwealth Government to the State Government with restrictions on how the funding can be spent.
State of Victoria	See ‘public sector as a whole’.
State-sourced revenue	Revenue raised by the Government using its own powers, such as taxes, fees, sales, fines and dividends. Contrasts to grants received from the Commonwealth Government.
TAC	Transport Accident Commission
TAFE	Technical and Further Education. A range of State-funded tertiary institutions that provide mainly vocational education.
TCV	Treasury Corporation of Victoria

TEI/total estimated investment	An estimate of the total amount of expenditure required to deliver an 'asset investment' project.
Trust Fund	Trust accounts within the Trust Fund are set up to receive and distribute funds for specific purposes. The Trust Fund, together with the 'Consolidated Fund' forms the 'Public Account'.
VAGO	Victorian Auditor-General's Office
VCAMS	Victorian Child and Adolescent Monitoring System
VCDI	Victorian Centre for Data Insights
VET	Vocational Education and Training
VMIA	Victorian Managed Insurance Authority
VPS	Victorian Public Service
VTF	Victorian Transport Fund
VVC	Victorian Veterans Council

Chair's foreword

I am pleased to present the Public Accounts and Estimates Committee's *Report on the 2016-17 Financial and Performance Outcomes*.

Over the course of this inquiry the Committee has examined not only the financial outcomes for 2016-17 and compared these to the original Budget estimates, but also the performance of the Government departments and agencies. This includes reviewing the impact of initiatives to support vulnerable Victorians, including victims of family violence as well as gender equality policies and the Government's capital expenditure.

The Committee also analysed the impact of increased infrastructure spending across the State's finances. In 2016-17, investment in Victoria's physical assets was \$9.1 billion, a 91.5 per cent increase over the amount invested the previous year. The report discusses the impact of the current level of asset investment activity on road safety, rail signalling and transport planning.

It has been said that data is the oil of the 21st century. Consequently, the Committee looked into how members of the public can access Government data and the current status of the Government's open access DataVic portal. As a result of its investigation, the Committee makes a series of important recommendations relating to the data.vic.gov.au website. This includes better promotion of the website data that is freely available for everybody to use.

The Committee held public hearings with departmental secretaries and senior officials in February 2018 and once again I thank all the inquiry's witnesses, and their staff, for their effort in preparing and appearing before the Committee.

I would like to thank my Deputy Chair, Mr David Morris, together with the other Committee members for the considerable time and effort they have put into this inquiry. I would also like to acknowledge the Committee's secretariat for its support.

The Committee's 43 recommendations made in this report are directed at enhancing future reporting on public sector spending and performance outcomes for the Parliament and wider Victorian community.



Mr Danny Pearson MP
Chair

Findings and recommendations

2 Overall financial outcomes for 2016-17

- FINDING 1:** Total revenue for the general government sector in 2016-17 was \$60.9 billion. This was \$4.2 billion (or 7.4 per cent) more than the previous year. 12
- FINDING 2:** Total output expenses for the general government sector were \$58.2 billion in 2016-17, which was \$4.2 billion (7.7 per cent) higher than 2015-16. Health employment spending was a significant factor in both the total expenditure growth and its variance from budget. There was a significant underspend of \$616 million on education projects in 2016-17. 15
- FINDING 3:** The operating result for the general government sector for 2016-17 was a surplus of \$2.7 billion, 1.7 per cent higher than the previous year. The general government sector was in a net lending position in 2016-17 of \$1.1 billion. 16
- FINDING 4:** Government infrastructure investment for 2016-17 was \$9.1 billion. This was a significant (91.5 per cent) increase over the previous year, and was also 21.3 per cent above the forecast in the budget papers. This increase was a result of the Government’s decision to accelerate a number of capital projects. 18
- FINDING 5:** Net debt for the general government sector in June 2017 was \$15.8 billion, 29.3 per cent lower than June 2016, and 15.3 per cent lower than the original forecast. This is largely associated with the higher-than-expected price received for the Port of Melbourne lease. 18
- FINDING 6:** Results for the public non-financial corporations sector enabled a \$182 million decrease in net debt. Cash received from the Lonsdale Consortium for port licence fees was remitted to the general government sector. 20
- FINDING 7:** Revenue for the public non-financial corporations sector fell from the previous year, but was still higher than anticipated. Expenses grew over the year, leading to an operating deficit for the sector of \$436 million, which was not as severe as anticipated. 21
- FINDING 8:** By 2016-17, the level of asset investment in the public non-financial corporations sector was less than 40 per cent of the level between 2008-09 and 2010-11. As the majority of public non-financial corporations are water corporations, the falling levels of asset investment indicate that new or replacement infrastructure associated with these organisations is not occurring at the levels seen in 2008-09 to 2010-11, which was a time of significant investment in projects. 23

FINDING 9: Cash for the port lease transaction was received in advance by the public non-financial corporations sector and then remitted to the Victorian Transport Fund. This resulted in an \$8.7 billion increase in a non-financial liability for the sector. Because the cash received was remitted to the general government sector, there was no effect on net debt for the public non-financial corporations sector. The remittance lowered the Government’s equity in the public non-financial corporations sector.25

FINDING 10: The public financial corporations sector made an operating deficit of \$2.0 billion in 2016-17. However, increased investment returns on funds managed by the sector added \$6.2 billion to the sector’s overall result, producing a net \$4.2 billion surplus.28

FINDING 11: The net result for the public financial corporations sector has fluctuated significantly in the past, with the growth between 2015-16 and 2016-17 reaching \$6.7 billion.28

RECOMMENDATION 1: Due to the historic volatility of the net result for the public financial corporations sector and its significant variance from budget estimates, future Annual Financial Reports contain a specific explanation for growth from the previous year and variance from original estimates. These explanations should separate the operating result and other economic flows, and discuss any relevant macroeconomic factors in more detail.28

RECOMMENDATION 2: When estimates of the net result for the public financial corporations sector are altered by more than \$1 billion in any direction in a budget update or a subsequent set of budget papers, a detailed explanation be provided of the updated estimate, including reasons why the estimate has changed.28

FINDING 12: In 2016-17 the State of Victoria was in a net borrowing position as the larger-than-expected net operating surplus together with non-cash costs did not provide sufficient cash to fund the State’s infrastructure investment.30

3 Revenue

FINDING 13: The general government sector’s revenue was \$60.9 billion in 2016-17. This outcome is an increase of 7.4 per cent compared to 2015-16 and is 0.9 per cent higher than the amount anticipated in the 2016-17 Budget.34

FINDING 14: In 2016-17, \$27.3 billion or 44.9 per cent of the Government’s total revenue came from Commonwealth grants. Most of this was Commonwealth general purpose grants, or goods and services tax revenue, which was \$13.6 billion in 2016-17.37

FINDING 15: Specific purpose grants from the Commonwealth were \$9.9 billion in 2016-17, \$702 million (7.7 per cent) higher than the previous year, and \$140 million (1.4 per cent) greater than the original 2016-17 budget estimate. The increase was driven by larger payments made as part of the *National Health Reform Agreement*, where the Commonwealth contribute to State-based health services and funding.38

- FINDING 16:** The prepaid port license fees associated with the Port of Melbourne's lease of operations in 2016-17 was reported under 'other taxes' in the *2016-17 Financial Report*. As a result, 'other taxes' were \$1.9 billion in 2016-17, an increase of \$859.8 million over the previous year, but only a \$4.3 million variance (0.2 per cent) over the original budget estimate. 39
- FINDING 17:** The strong property sector has driven increases in the property-related revenue streams of land transfer duty and land tax, which totalled \$8.6 billion in 2016-17. 41
- FINDING 18:** In 2016-17, \$266.5 million was raised through the *Absentee Landowner Surcharge*, the *Land Transfer Duty Surcharge on Foreign Buyers of Residential Property* and the *State Revenue Office Land Tax Compliance Program*. The revenue raised through these initiatives was more than double the 2016-17 budget estimate. 41
- FINDING 19:** Payroll tax for 2016-17 was \$5.7 billion, marginally higher (\$18 million) than the original budget estimate and \$457 million (8.3 per cent) higher than the 2015-16 figure. This reflects employment growth and greater labour market participation. 42
- FINDING 20:** In 2016-17 the revenue collected for motor vehicle taxes (\$2.4 billion), insurance taxes (\$1.2 billion) and the fire property services levy (\$676 million) were all within two per cent of the original budget estimate. Revenue from gambling taxes was \$1.8 billion, \$113 million (5.9 per cent) under the original 2016-17 budget estimate and \$36 million (1.9 per cent) less than the previous year. 43
- FINDING 21:** Sales of goods and services were \$6.9 billion in 2016-17, increasing by \$268 million (4 per cent) in comparison to the previous year and \$95 million (1.4 per cent) over the initial budget estimate. Within this category most revenue came from the provision of services (\$4.0 billion) and the inter-sector capital asset charge (\$1.9 billion). 44
- FINDING 22:** Other revenue was \$2.6 billion in 2016-17, a decrease of \$463 million from the previous year, mainly due to the one off \$540 million plus interest in additional revenue the State recorded in 2015-16 as a result of the High Court's decision in the Tatts Group Limited (Tatts) 'Gambling Licences' proceedings. 45
- FINDING 23:** Dividends and similar revenue was \$658 million in 2016-17, a decrease of \$190 million from the previous year and \$400 million or 37.8 per cent less than the original budget estimate. 46
- FINDING 24:** The \$246 million in dividends from the public financial corporations sector for 2016-17 was similar to the 2015-16 amount (\$239 million), however the original budget estimate was \$526 million, more than double (113.8 per cent) the actual result. Dividends from the Victorian Managed Insurance Agency comprised the bulk (66 per cent) of dividends from the sector. 47

FINDING 25: Dividends from the public non-financial corporations sector were \$123 million in 2016-17, \$26 million (17.4 per cent) less than the previous year and \$127 million (50.8 per cent) less than the original budget estimate. The lower result was largely due to \$100 million in dividends originally budgeted from the State Electricity Commission of Victoria not being collected. The four metropolitan water corporations made up 90.2 per cent of the dividends from the sector 2016-17.49

FINDING 26: South East Water Corporation was the largest single contributor towards public non-financial corporations dividends for 2016-17 and the *2017-18 Budget Update* indicates will continue to pay the largest amount of dividends out of all the metropolitan water corporations over the forward estimates period. The Corporation has indicated to the Committee that there was no impact on the organisation as a result of the 2016-17 dividend payment.49

4 Net debt

FINDING 27: Net debt for the general government sector was \$15.8 billion at June 2017, a decrease of \$6.5 billion (29.3 per cent) from the previous year and \$2.8 billion (15.3 per cent) lower than the original budget forecast, mainly due to the outcome of the Port of Melbourne lease transaction.52

FINDING 28: Net debt for the public non-financial corporations sector at June 2017 was \$14.1 billion, slightly less than the previous year and \$1.6 billion (10.3 per cent) less than the original budget estimate.....53

FINDING 29: Although general government sector net debt at June 2017 was the lowest since June 2012, it is expected to increase rapidly over the forward estimates period to pay for the Government’s accelerated infrastructure program.56

FINDING 30: Departments have reported to the Committee that commissioned public private partnership projects over 2016-17 have contributed \$1.1 billion to general government sector net debt, and the figure is expected to be similar (\$1.0 billion) for 2017-18. The *High Capacity Metro Trains* project is expected to contribute to net debt beyond 2020-21.....58

FINDING 31: The present value of the unfunded superannuation liability for the general government sector decreased by \$4.4 billion between 2016 and 2017 to \$24.9 billion. This reduction is primarily explained by higher bond yields, and is the lowest unfunded superannuation liability since 2012.....59

5 Output expenditure and delivery

- FINDING 32:** Expenses from transactions for the general government sector in 2016-17 totalled \$58.2 billion, which was 7.7 per cent higher than 2015-16 and 1.2 per cent more than originally anticipated. **62**
- FINDING 33:** For 2016-17, employee-related expenses (which include superannuation costs) totalled \$23.2 billion, or 39.9 per cent of total expenses for the year. This was \$1.5 billion (6.6 per cent) higher than 2015-16 and \$0.2 billion (0.8 per cent) higher than the budget figure. **64**
- FINDING 34:** There were 48 enterprise bargaining agreements signed in 2016-17. **64**
- FINDING 35:** Grant expenses increased by 22.3 per cent to \$10.5 billion. This increase was due to:
- the timing of Commonwealth grants for on-passing to local governments
 - the timing of the transfer of the Synchrotron to the Commonwealth
 - the transfer of responsibilities for specialist disability services to the Commonwealth under the National Disability Insurance Scheme
 - the newly-developed compensation grants for taxi licence-holders related to industry reforms. **65**
- FINDING 36:** Other expenses were \$23.2 billion for 2016-17. This was more than 2015-16, but less than the anticipated amount, largely due to lower interest costs and less spent on purchases of supplies and consumables. **66**
- FINDING 37:** The 114 cost outputs can range considerably in terms of dollar value. The largest six cost outputs account for more than half of the State's total output cost. . **68**
- FINDING 38:** A small number of outputs have very large cost amounts such as the Department of Health and Human Services' *Admitted Services* output (\$9.9 billion) and the Department of Education and Training's *School Education – Primary* (\$4.9 billion) and *School Education – Secondary* (\$4.0 billion) outputs. **69**
- FINDING 39:** The consolidation of expenditures into multi-billion dollar budget outputs reduces the transparency of outcomes delivered in the health and education sectors. **69**
- RECOMMENDATION 3:** The largest three outputs by cost be disaggregated into smaller outputs that represent like activities. These outputs are:
- (a) the Department of Health and Human Services' *Admitted Services* output
 - (b) the Department of Education and Training's *School Education – Primary and School Education – Secondary* outputs. **69**
- FINDING 40:** The Government is in the process of developing targets and an annual reporting program to track progress against benchmarks of gender equality. . . . **71**

RECOMMENDATION 4: Targets and metrics developed for gender equality are developed that include:

- (a) measuring the impact of the overall Budget on women and girls aged over 12
- (b) performance measures tracking achievements and progress at the departmental level, reported upon annually
- (c) targets for greater gender equality in the public sector, including recruitment and the procurement of gender-responsive suppliers and contractors.72

FINDING 41: While the overall proportion of women working in the Victorian public sector in 2017 is unchanged from 2012, the proportion of female representation in certain areas of the public sector has improved. This includes the overall number of females and the number of female executives employed in the Department of Treasury and Finance. This has occurred as a result of measures such as gender balance in the recruitment process, flexible work arrangements and unconscious bias training.75

FINDING 42: The proportion of women on Victorian councils increased from 33.9 per cent in 2012 to 38.1 per cent by 2016.75

FINDING 43: The representation of women on Catchment Management Authority Boards is now over 50 per cent, with 60 per cent of Board members being female, as well as six out of ten Chairs.76

FINDING 44: The composition of the Victorian veterans’ community is changing in terms of age groups, gender and service needs.78

FINDING 45: Programs focussing on employment and mental health aimed at younger veterans include the *Public Sector Veterans Employment Strategy* which supports veterans who wish to find employment in the Victorian Public Service, the establishment of the Veterans’ Employment Advocate and access to the State mental health system. 80

FINDING 46: Events and activities associated with the World War I Centenary and fiftieth anniversary of the Battle of Long Tan have seen an increase in participation, particularly for school children, in ANZAC remembrance services, together with a greater community awareness of Australia’s military history. 81

FINDING 47: A new rooming house licensing system was introduced on 26 April 2017. At the end of 2016-17, 99 licences had been approved of the 1,184 rooming houses registered.83

FINDING 48: The decline in unemployed learners enrolled in higher education and skills in 2016-17 may have been due to enrolments in some courses that were of deficient quality. The new *Reconnect* program will support early school leavers in vocational education.84

- FINDING 49:** Some of the challenges for Victoria Police in addressing illegal brothel activity and minimising harm include:
- the transitory nature of such brothels
 - illegal activity undertaken in legal brothels
 - gathering sufficient evidence to prosecute offenders. 86

6 Asset investment

- FINDING 50:** Direct asset investment rose by 65.3 per cent from 2015-16 to reach \$7.0 billion in 2016-17. This increase was a result of Government policy which accelerated a number of projects. 90

- FINDING 51:** The majority of direct asset investment for 2016-17 was expended by the Department of Economic Development, Jobs, Transport and Resources on transport projects, the Department of Health and Human Services on hospital developments and housing and the Department of Education and Training on school infrastructure including asbestos removal. 92

- FINDING 52:** Net investment through other sectors was a disinvestment of \$134.0 million, the second disinvestment in the last two years. This continues a trend away from investing through other sectors as a form of Government asset investment. 93

- FINDING 53:** Estimated expenditure on public private partnership projects in 2016-17 was \$2.2 billion, 271.6 per cent higher than the previous year, and 93.5 per cent higher than the original budget estimate. When asked by the Committee how much departmental public private partnership projects contribute to the \$2.2 billion figure, only \$851 million, or 40 per cent, of project costs were disclosed by departments. 95

- FINDING 54:** The Government has not explained any significant growth or variance from earlier estimates of public private partnership project expenditure, despite supporting previous recommendations made by the Committee to do so. 96

RECOMMENDATION 5: Future budget papers, including the Annual Financial Report provide, for any item of the State's finances, including estimated expenditure on public private partnership projects, a detailed explanation for:

- (a) significant expected or actual growth from one year to the next, or
- (b) significant variance of actual outcome (or updated estimate) against the previous estimate including from the original budget estimate, where 'significant' is over \$1.0 billion, or more than 50 per cent for any item with a value over \$200.0 million. 96

- FINDING 55:** Entities in both the public financial corporations and public non-financial corporations sectors have made capital repatriation payments to the Government during 2015-16 and 2016-17. Capital repatriation payments are similar in nature to dividend payments, but are not reported to the same level of detail in either the budget papers or the Annual Financial Report. 99

FINDING 56: Government guidance for departments and business enterprises on capital repatriation payments is not as expansive as guidance on dividend payments, despite these items being similar in nature. 99

RECOMMENDATION 6: Future budget papers and Annual Financial Reports disclose intended and actual capital repatriation payments made by the public financial corporations and public non-financial corporations sectors in a similar way to which dividends are currently reported. 99

RECOMMENDATION 7: The Government update the 2009 *Corporate Planning and Performance Reporting Requirements for Government Business Enterprises* document, including a summary of the Government’s policy on capital repatriation payments. 99

FINDING 57: The rollout of the \$5.5 million *New Booze and Drug Buses (Statewide)* program was delayed over 2016-17 due to design and procurement issues. 104

FINDING 58: The total estimated investment for the *Conventional Signalling Upgrade – Caulfield to Dandenong* project was increased from \$360.0 million to \$608.3 million in 2016-17 and now forms part of the \$1.3 billion *High Capacity Metro Trains* project. 106

FINDING 59: The trial of *Trial of High-capacity Signalling – Stage 1* project was moved from the Sandringham line to the South Morang line in 2015-16 and in 2016-17 was merged into the \$11.0 billion *Melbourne Metro Tunnel (Metro Various)* project. 107

FINDING 60: High-capacity signalling uses technology to allow trains to run closer together along rail lines, thus increasing the number of trains operating on the network. High-capacity signalling on the Dandenong rail corridor is now expected to come into operation by 2026. The installation of high-capacity signalling across the rest of the Melbourne metropolitan rail network has not yet been determined. . . . 108

FINDING 61: Despite a record level of transport-related infrastructure asset investment in 2016-17, there is currently no overarching transport plan for Victoria, nor timeframe for formulating one. 110

7 Review of annual reports

FINDING 62: All indicators were found to be relevant to objectives and in the vast majority of cases were appropriate for assessing performance. However, clear and demonstrable linkages between objectives and outcomes were for the most part lacking across the board. 114

RECOMMENDATION 8: To provide clearer performance-related connections in the Department’s annual report, the Department of Health and Human Services link its objectives and performance indicators with its outputs to be delivered as part of the budget process. 116

FINDING 63: There are three indicators in the budget papers for 2016-17 connected with the Department of Health and Human Services that are not addressed in its 2016-17 annual report. One of these indicators is children in out-of-home care meeting literacy and numeracy benchmarks 116

RECOMMENDATION 9: The Department of Health and Human Services account in its annual report for all of the indicators set out in the Victorian budget papers. 116

FINDING 64: Reasons for material variances are not always provided in the Department of Health and Human Services annual report for example for the unplanned/unexpected hospital readmissions and response times to code 1 emergency incidents performance measures. 117

RECOMMENDATION 10: Where unplanned/unexpected readmissions targets are exceeded by more than five per cent, or lower than five per cent the Department of Health and Human Services provide reasons for the result in its annual report. 117

FINDING 65: Of the 30 lower level indicators, there were 12 indicators where the results for 2016-17 were not available for inclusion in the Department of Health and Human Services annual report. 117

FINDING 66: More sophisticated performance measures should be developed in relation to spending on health infrastructure, elective surgery waiting times and measurement of chronic disease risk factors..... 118

RECOMMENDATION 11: The Department of Health and Human Services:

- (a) disclose in its annual report information showing trends in elective surgery waiting times for particular specialities that show a significant improvement or deterioration
- (b) explore the option of expanding the indicator on chronic disease risk factors beyond smoking
- (c) develop a more comprehensive suite of infrastructure-related indicators connected with performance, rather than reporting only on the amount of capital funding. 118

FINDING 67: In relation to the *Acute Health Services* output group, almost half of the output measures for the *Admitted Services* output reflected only preliminary results despite the cost for this output amounting to close to \$9.9 billion.. 118

RECOMMENDATION 12: When information of a preliminary nature is reported in its annual report against output performance measures, the Department of Health and Human Services explain why it is regarded as a preliminary result, when the information will be finalised and how interested parties can then access this information when it becomes publicly available.. 118

FINDING 68: The Department of Education and Training has not reported its performance against two indicators outlined in the 2016-17 Victorian budget, including Vocational Education and Training participation by learners facing barriers.. .120

RECOMMENDATION 13: The Department of Education and Training explain in its annual report the rationale for not reporting against all of the indicators set out in the Budget. 120

RECOMMENDATION 14: If the data to inform indicators cannot be obtained in a timely manner for inclusion in the annual report, the Department of Education and Training assess whether it is appropriate to retain such indicators for annual reporting purposes..... 121

RECOMMENDATION 15: Impediments to the publication of dollar per primary and secondary school student per financial year be resolved ahead of reporting of performance against these measures in the 2017-18 Department of Education and Training annual report. 121

RECOMMENDATION 16: If data for reporting against the indicator ‘Dollar per VET student contact hour per calendar year’ cannot be obtained in a timely manner for inclusion in the annual report, the Department of Education and Training assess whether it is appropriate to retain this indicator for annual reporting. 122

RECOMMENDATION 17: To assist interested parties assess actual performance against targeted activity, if final figures for the current reporting year are not available in time for report publication, the Department of Education and Training disclose in its annual report how this data relating to the *Early Childhood Development* output can be accessed and the latest date that the data will become publicly available..... 122

RECOMMENDATION 18: Where activities of the Department during a year have an impact on outcomes relevant to the Department’s objectives, such as increasing employment opportunities, the Department of Economic Development, Jobs, Transport and Resources’ annual report reflect this to enhance its accountability. ... 123

FINDING 69: The development of indicators adopted by the Department of Economic Development, Jobs, Transport Resources and for annual reporting purposes is at an advanced stage compared to other departments. Extensive use has been made of satisfaction surveys. 124

FINDING 70: There is very limited information in the Department of Economic Development, Jobs, Transport and Resources annual report on the delivery of major infrastructure projects in 2016-17 including the *Melbourne Metro Tunnel (Metropolitan Various)*, *Level Crossing Removal Program (Metro Various)* and the *West Gate Tunnel Project*. 124

RECOMMENDATION 19: If current information cannot be obtained for the annual report on the value of Victorian agriculture production, earth resources production and food and fibre exports other reporting options should be explored by the Department of Economic Development, Jobs, Transport and Resources..... 125

RECOMMENDATION 20: If current information cannot be obtained for the annual report on serious injuries on the transport network other reporting options should be explored by the Department of Economic Development, Jobs, Transport and Resources.	125
RECOMMENDATION 21: The information disclosed against the objective indicator ‘percentage of community-based orders successfully completed’ be benchmarked against like jurisdictions.	126
RECOMMENDATION 22: The objective indicator ‘young offenders participating in community reintegration activities’ be amended to exclude those clients who are ineligible to participate in reintegration activities.	126
RECOMMENDATION 23: The Department of Justice and Regulation replace wide performance target ranges with challenging performance targets.	127
RECOMMENDATION 24: The Department of Justice and Regulation annual report should provide readers with a greater insight into the challenges of delivering outcomes for the effective management of offenders and prisoners. The main barriers to achieving stronger results should be set out along with how these issues have been addressed in the last financial year by the Department and its related agencies. Future plans to improve results should also be addressed in the annual plan. How Victoria is performing compared to other Australian jurisdictions should be explained.	128
RECOMMENDATION 25: To supplement the reporting of service delivery information, the Department of Justice and Regulation also present the findings of surveys of client satisfaction in relation to legal advice and assistance provided, clinical forensic medical services provided and services provided to victims of crime against the person.	128
FINDING 71: There is no disclosure in the Department of Justice and Regulation’s annual report of the investment and use of funds held in trust and administered by the Funds in Court Senior Masters Office, an Office of the Supreme Court, for beneficiaries of:	
• the County and Magistrates’ Courts in terms of those suffering a disability from an accident or injury	
• the Victims of Crime Assistance Tribunal.....	129
RECOMMENDATION 26: The Department of Justice and Regulation disclose in its annual report summary information relating to statutory authorities and offices by Ministerial portfolio such as the Funds in Court Senior Masters Office.	129
RECOMMENDATION 27: For the newly established objective ‘Reliable, efficient, accessible, safe and sustainable energy services’, the Department of Environment, Land, Water and Planning develop a wider suite of indicators to complement the sole indicator that currently relates to only renewables.	130

RECOMMENDATION 28: For the objective ‘Sustainable and effective local governments’, the Department of Environment, Land, Water and Planning report on a greater suite of quantitative indicators that reflect the work of Local Government Victoria.	130
RECOMMENDATION 29: The Department of Environment, Land, Water and Planning explain in its annual report the basis for the state-wide bushfire risk of 70 per cent or below target and what the target means in lay terms.	131
RECOMMENDATION 30: Where there is a significant underspend in a year due to a delay experienced in a particular program, the Department of Environment, Land, Water and Planning explain the circumstances surrounding the delay in its annual report and remedial action taken, rather than only disclosing the delay.	131
FINDING 72: How well the Department performs in whole-of-government policy development and the reporting of performance was difficult to ascertain from the Department of Premier and Cabinet annual report.	132
FINDING 73: The Committee found four outputs where the Department of Premier and Cabinet significantly underspent its budget for 2016-17 including in areas such as public sector information, communications and technology and Aboriginal policy. . .	132
RECOMMENDATION 31: Where significant proportions of output funding are not spent in a year and carried forward to the subsequent year, the Department of Premier and Cabinet outline the underlying reasons for the under-spend in the annual report, together with a discussion on the subsequent impact on the delivery of services and outcomes for that year.	132
FINDING 74: The Department of Premier and Cabinet would be ideally placed to prepare and table a consolidated whole-of-government outcomes report on an annual basis.	133
RECOMMENDATION 32: The Department of Premier and Cabinet prepare and table a whole-of-government performance outcomes report on an annual basis.	133
RECOMMENDATION 33: To provide clearer performance-related connections in the Department’s annual report, the Department of Treasury and Finance link its objectives and performance indicators with its outputs to be delivered as part of the budget process.	133
FINDING 75: There was no detailed information regarding the extent to which high-value high-risk government projects were completed within agreed timeframes and scoping requirements in the Department of Treasury and Finance’s annual report.	134
RECOMMENDATION 35: The Department of Treasury and Finance include comprehensive information in its annual report of the outcomes achieved in relation to the indicator ‘Ensure high-value high-risk Government projects are completed within agreed timeframes and scope’.	134

FINDING 76: In reporting on performance against the four indicators relating to the provision of advice under each objective, the Department of Treasury and Finance described the ways in which it provided advice. It did not report on the quality, timeliness and relevance of the advice provided as assessed by key clients. . . . 135

RECOMMENDATION 36: The Department of Treasury and Finance disclose whether their key clients consider high quality, timely and relevant advice has been provided on:

- (a) economic policy, forecasts, legislation and frameworks
 - (b) asset management, the delivery of infrastructure, management of government land, borrowings, investments, insurance, superannuation issues and prudential supervision
- in its annual report. 135

8 Public access to Government data

FINDING 77: The *DataVic Access Policy* was established in 2012 with responsibility for the guidance of the policy transferred from the Department of Treasury and Finance to the Department of Premier and Cabinet in October 2017. 141

FINDING 78: Recent actions by the Government indicate a centralised approach for the management of access to public sector data, including dedicated legislation, the creation of the Victorian Chief Data Officer and ministerial oversight. The newly formed Victorian Centre for Data Insights headed by the Victorian Chief Data Officer will operate out of the Department of Premier and Cabinet. 142

FINDING 79: Departments and agencies do not know who the major beneficiaries are of the data uploaded onto the DataVic website. As a result, reporting information on the policy in departmental annual reports is largely limited to the number of datasets made available on the website. 143

RECOMMENDATION 37: The Victorian Centre for Data Insights:

- (a) develop a mission statement on the purpose and uses of public sector data
- (b) undertake research into the use of data available and downloaded from the DataVic website, establishing the potential and realised benefits of the policy
- (c) communicate the outcomes and findings of this research to Victorian Government Departments and agencies. 144

FINDING 80: Public sector information available on the DataVic portal covers a wide variety of topics including crime statistics and post school pathways. It has been used by members of the community for both formal and informal research purposes. Data relating to public transport and school locations is also frequently downloaded from the website. 145

FINDING 81: Third parties can transform data on DataVic into applications for mobile devices, reaching large numbers of people who require information about government services, such as public transport timetables and locations. 145

RECOMMENDATION 38: Guidance on the commercialisation of datasets is reviewed and updated in light of the recent establishment of the Victorian Centre for Data Insights.146

FINDING 82: The combined asset location and condition data provided by water corporations and other utilities to the DataVic website has the potential to improve planning, prevent accidental damage to assets and reduce overall project costs.146

RECOMMENDATION 39: The Victorian Centre for Data Insights:

- (a) establish a set of high value datasets for each department and agency in consultation with them
- (b) ensure that these high value datasets are on the appropriate asset registers
- (c) ensure that these high value datasets are available and kept up-to-date on the DataVic website
- (d) ensure that the list of high value datasets is regularly reviewed.....148

FINDING 83: Challenges identified by departments and agencies in implementing the *DataVic Access Policy* include limited awareness internally, limited resourcing and difficulties in assessing what data would be suitable for public release. Privacy and security concerns are also some key risks.....149

FINDING 84: There is limited awareness or adherence to *DataVic Access Policy* guidelines regarding datasets compiled as a result of Freedom of Information requests amongst departments and agencies. 151

FINDING 85: Factors inhibiting datasets compiled as a result of Freedom of Information requests being made available on the DataVic website include sensitivity and privacy, the ad hoc and specific nature of Freedom of Information requests which may not be of broad public interest and requests relating to specific time periods. 153

RECOMMENDATION 40: The Victorian Centre for Data Insights assist departments in reviewing successful Freedom of Information requests over the last five years to identify data that is suitable for release onto the DataVic website. The identified datasets should then be placed on the appropriate asset registers, uploaded and regularly updated on the DataVic website.154

FINDING 86: Limitations of the DataVic website’s functionality include a poor search function, broken links to data and out-of-date data..... 155

RECOMMENDATION 41: The Department of Premier and Cabinet, through the Victorian Centre for Data Insights, actively curate the DataVic website, including:

- (a) ensuring data is available in an excel or similar format that is easily downloaded
- (b) identifying datasets that can be compiled into one excel spreadsheet that is updated annually
- (c) removing out-of-date datasets
- (d) checking links and downloadable data to see if they are still active..... 155

FINDING 87: The Department of Justice and Regulation did not include a statement of compliance with the <i>DataVic Access Policy</i> in its <i>2016-17 Annual Report</i> as required by the Model Report guidance.	157
FINDING 88: Very limited additional information has been provided in the 2016-17 departmental annual reports in relation to the <i>DataVic Access Policy</i> achievements, with the exception of the Department of Health and Human Services. Information largely relates to the number of datasets made available on the DataVic website.	157
FINDING 89: With the exception of the Department of Environment, Land, Water and Planning, all departments and Victoria Police now maintain an asset register, in line with the <i>IM-STD-03 Information Management Governance Standard</i> . Most other agencies have an asset register in place, or are in the process of establishing one. A whole-of-government asset register is expected to be developed over 2017-18.	159
FINDING 90: The Department of Environment, Land, Water and Planning does not have a single asset register, although it publishes a register of its spatial information.	159
RECOMMENDATION 42: The Department of Environment, Land, Water and Planning establish a whole of department asset register, in line with the <i>IM-STD-03 Information Management Governance Standard</i>	160
FINDING 91: With the exceptions of Victoria Police and the Department of Premier and Cabinet, all departments and agencies that are required to have an Information Management Governance Committee under <i>IM-STD-03 Information Management Governance Standard</i> now do so.	161
FINDING 92: Guidance and standards documentation relating to information management policies and processes that departments and agencies are required to adhere to is increasing.	162
RECOMMENDATION 43: The Department of Premier and Cabinet, as the central agency, ensure that information management guidance and standards supplied to departments and agencies are clear, relevant, do not duplicate existing documentation and kept to a minimum.	162

1.1 Background

The Government's plan for the State's finances and spending is presented each year in the Budget. In 2016-17 the Government spent \$58 billion delivering services and programs and raised \$61 billion in revenue.

But how effective and efficient was the public sector in delivering the initiatives outlined in the State Budget?

This report sets out the Committee's findings regarding the Government's financial and performance outcomes for 2016-17.

1.2 The financial and performance outcomes inquiry

The Public Accounts and Estimates Committee (PAEC) undertakes an outcomes review every year. It assists Parliament and the community to gauge what the Government actually achieved in the last financial year, compared to what the Government planned to achieve. The purpose of this review is to complement the Committee's assessment, undertaken at the start of the financial year, of the budget estimates.

The Committee's review of outcomes aims to improve the accountability of Victorian Government departments and agencies. The report contains recommendations directed at improved transparency and clarity in the reporting of public sector performance. It also provides the Parliament and community with more meaningful information about the results achieved in the last financial year.

1.3 The inquiry process

The inquiry process is illustrated in Figure 1.1. Information used by the Committee to inform its report and recommendations include:

- Departmental annual reports
- PAEC public hearings with the secretaries and senior staff of departments
- responses from departments, agencies and Parliament to the PAEC's questionnaire
- the Department of Treasury and Finance's *2016-17 Financial Report*
- Auditor-General's reports.

1

Although the inquiry hearings were originally scheduled to be held in November 2017, they were postponed until February 2018 due to additional sitting days in the Legislative Council. Questionnaires were sent to departments, agencies and Parliament on 25 September 2017. The responses are available on the PAEC's website at <https://www.parliament.vic.gov.au/paec>

1.4 Key findings of this report

1.4.1 2016-17 financial outcomes at a glance

For the general government sector in 2016-17:

- total revenue was \$60.9 billion, an increase of \$4.2 billion (or 7.4 per cent) over the previous year.¹ The strong property sector has driven increases in the State-sourced, property-related revenue streams of land transfer duty and land tax, which totalled \$8.6 billion²
- total output expenses were \$58.2 billion, which was \$4.2 billion (7.7 per cent) higher than 2015-16.³ Employment spending in Victoria's health sector continues to be a significant factor in the expenditure growth
- the operating result was a surplus of \$2.7 billion, 1.7 per cent higher than the previous year⁴
- government infrastructure investment was \$9.1 billion, a significant (91.5 per cent) increase over the previous year⁵
- net debt at June 2017 was \$15.8 billion, 29.3 per cent lower than at June 2016, and 15.3 per cent lower than the original forecast.⁶ The decrease in net debt was largely associated with the higher-than-expected price received for the Port of Melbourne lease.

1 Department of Treasury and Finance, *2016-17 Financial Report* (2017), pp.30, 108

2 *ibid.*, p.109

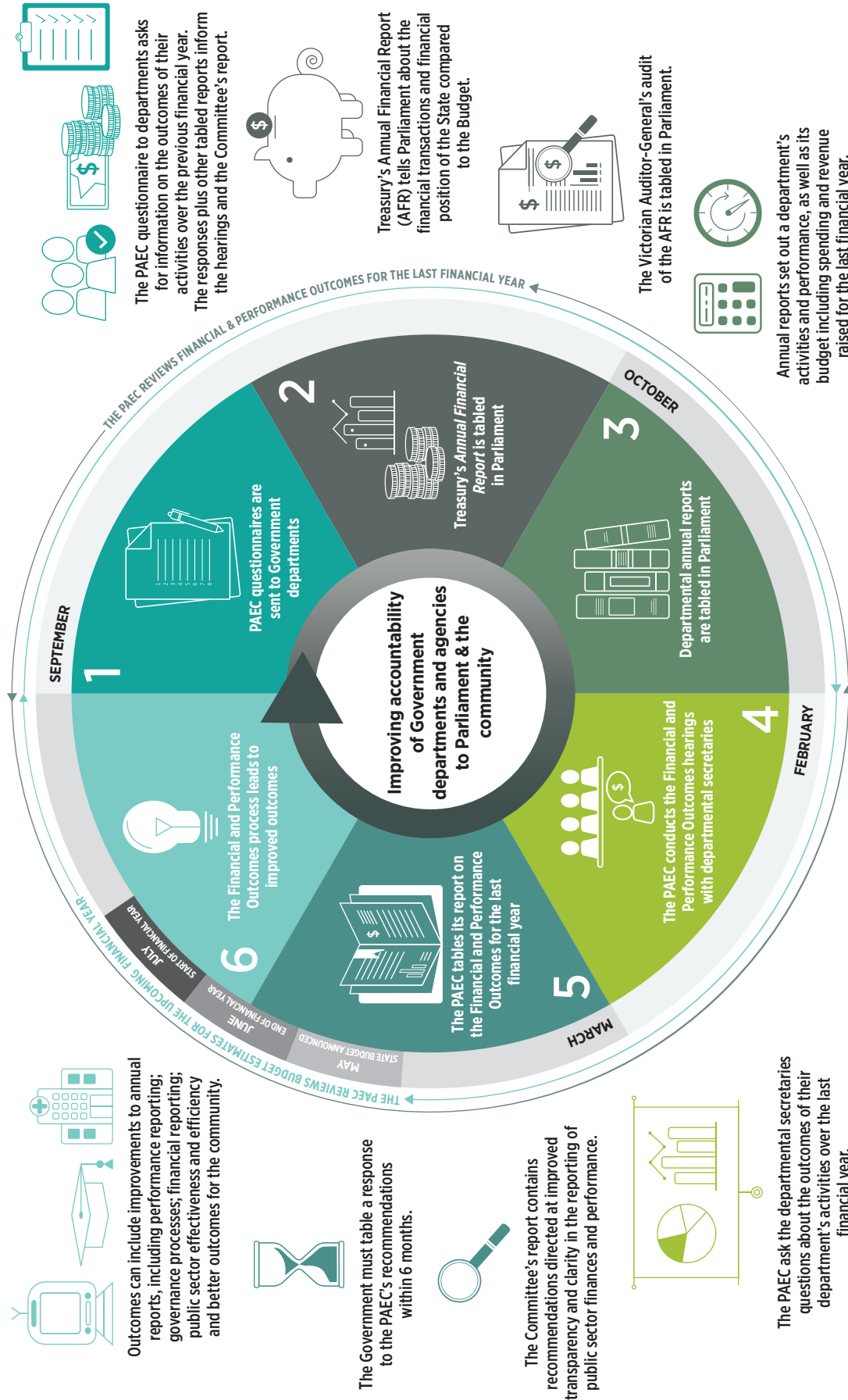
3 *ibid.*, pp.30, 108

4 *ibid.*, p.30

5 *ibid.*, p.10; Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.10; Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.15

6 Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.31

Figure 1.1 The financial and performance outcomes inquiry process



1.4.2 The public non-financial corporations sector

The public non-financial corporations (PNFC) sector is made up of Government-owned business enterprises, such as water corporations and cemetery trusts, that raise the bulk of their revenue from charging clients for their services. The Committee continues to monitor the performance of the PNFC sector in terms of:

- the level of investment in the sector made by the Government
- the renewal and replacement of its assets
- dividends and other payments made from the PNFC and public financial corporations (PFC) sectors to the general government sector.

1.4.3 Impact of increased levels of infrastructure investment

The impact of the increased levels of spending on infrastructure investment is discussed throughout this report. This includes:

- the impact of the Government's infrastructure investment program on the State's net debt position. Although net debt at June 2017 was the lowest since June 2012, this is expected to increase over the forward estimates period to pay for the Government's accelerated infrastructure program.⁷ As a result of this, net debt as a percentage of gross state product (4.0 per cent at June 2017, the lowest level for this indicator since 2011) is expected to increase to 5.7 per cent by June 2021.⁸
- the changing structure of government investment in infrastructure and physical assets. The Committee found that the Government is increasingly using direct asset investment and public private partnership (PPP) arrangements to fund its asset investment program, while the level of net investment through other sectors (whereby the Government injects equity into a Government business entity such as VicTrack rather than directly funding the project itself) is declining. The majority of direct investment over 2016-17 was expended by the Department of Economic Development, Jobs, Transport and Resources on transport projects, the Department of Health and Human Services on hospital developments and housing and the Department of Education and Training on school infrastructure, including asbestos removal.
- growing levels of expenditure on PPP projects, which totalled \$2.2 billion in 2016-17, 271.6 per cent higher than the previous year, and 93.5 per cent higher than the original budget estimate.⁹ As part of this inquiry, Departments reported to the Committee that commissioned PPP projects over 2016-17 contributed \$1.1 billion to general government sector net debt and the figure is expected to be similar (\$1.0 billion) for 2017-18.

⁷ Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.9

⁸ Department of Treasury and Finance, *2017-18 Budget Update* (2017), p.14

⁹ Committee calculations based on Department of Treasury and Finance, *Consolidated Cash Flow Statement - General Government Sector* (2017); Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.15

In this inquiry the Committee found the level of asset investment in the PNFC sector in 2016-17 was less than 40 per cent of the level between 2008-09 and 2010-11. As the majority of PNFC entities are water corporations, the falling level of asset investment indicates that new or replacement infrastructure associated with these organisations is not occurring at the level seen eight years ago.

South East Water Corporation was the largest single contributor of the PNFC dividends paid to the general government sector for 2016-17 and the *2017-18 Budget Update* indicates it will continue to pay the largest amount of dividends of all the metropolitan water corporations over the forward estimates period.¹⁰

As part of this inquiry, the Committee also examined another form of payment made by the PNFC and PFC sectors to the general government sector — capital repatriations. The Committee made a series of recommendations regarding these payments aimed at enhancing greater transparency and accountability.

1.4.4 Key topics from the public hearings

The Committee took the opportunity to enquire and discuss key projects and spending initiatives delivered over 2016-17 with senior departmental officials at the public hearings.

As part of this inquiry, the Committee has analysed output programs relating to:

- the Victorian veterans' community
- policies and developments in relation to gender equality
- programs concerning vulnerable Victorians.

The information provided by witnesses attending the public hearings also informed the discussion contained in this report on asset investment activity covering:

- road safety
- transport infrastructure — rail signalling
- transport planning.

The Committee found the contribution made by all the witnesses at the public hearings very valuable and wishes to thank them all for sharing their expertise and knowledge.

¹⁰ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.38; Department of Treasury and Finance, *2017-18 Budget Update* (2017), p.48

1.5 Key recommendations of this inquiry

As a result of this inquiry the Committee has made 43 recommendations across a number of areas concerning Government finance and performance outcomes reporting.

1.5.1 Budget and financial outcomes reporting

Recommendations made by the Committee relating to budget and financial outcomes reporting include:

- the need for improved reporting of PFC results in the Department of Treasury and Finance's Annual Financial Report, due to the volatility of sector's net result and the wide variance between the estimates set out in the budget papers and the actual result posted upon completion of the financial year
- the development of targets and metrics for gender equality in Government budgeting, including the establishment of economic benchmarks that are reported in the budget papers, the Annual Financial Report and department annual reports
- greater explanation of the growth from one financial year to the next and/or variance from the budget estimate of PPP project expenditure, due to the large increases seen across both these measures in 2016-17.

1.5.2 Departmental performance reporting in annual reports

This report contains a chapter examining the departmental annual reports for 2016-17. The chapter analyses the adherence to the Performance Management Framework in terms of reporting against departmental objective indicators and outputs, as well as examining the results for the various performance measures. The analysis includes whether the performance measures are useful, the reporting of the result was adequate and any shortcomings with the existing suite of the performance measures. The major recommendations from this examination include:

- the Department of Premier and Cabinet preparing and tabling a whole-of-government outcomes report on an annual basis
- increasing the transparency of the three largest cost outputs in place for the Department of Health and Human Services and the Department of Education and Training.

The chapter also contains a series of recommendations relating to greater transparency and clarity regarding performance measure reporting. These recommendations include using relevant and up-to-date data and setting challenging targets.

1.5.3 Public access to Government data

The report concludes with a chapter examining public access to Government data. Specifically, the chapter discusses the departments' and agencies' adherence to the *DataVic Access Policy*, and the current status of the Government's open access DataVic portal. The recommendations made by the Committee in this chapter are mainly targeted towards the newly established Victorian Centre for Data Insights (VCDI) operating out of the Department of Premier and Cabinet. The recommendations reflect the Committee's findings relating to the data.vic.gov.au website, its purpose and current use, together with opportunities for its improvement. This includes:

- the development of a mission statement for the purpose and uses of public data
- better awareness and communication of the data available on the website across Victorian Government departments and agencies
- establishing high value datasets for the State of Victoria
- active curation of the DataVic website
- establishing datasets suitable for public release onto the website in order to reduce the Freedom of Information request burden on departments, agencies and the community.

1.6 Government response to the previous outcomes report

The *Report on the 2015-16 Financial and Performance Outcomes* made a total of 28 recommendations directed at improved public disclosure and reporting.

The Government is required to provide a response to the recommendations made in the Committee's report six months after it has been tabled. Each year the Committee reviews the Government responses to the recommendations made in the past report and makes an assessment about the actions being taken to implement recommendations and the reasonableness of the responses to recommendations which have not been supported by the government.

The Committee notes that of the 28 recommendations made in the *Report on the 2015-16 Financial and Performance Outcomes*, 21 recommendations are supported or supported-in-principle by the Government and seven recommendations are not supported.¹¹

A summary of the nature of each of the recommendations not supported by Government and the Government response is set out in Table 1.1.

¹¹ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Financial and Performance Outcomes*, received 24 November 2017

Table 1.1 Summary of 2015-16 financial and performance outcomes recommendations not supported by government

Nature of the recommendation	Government response
Greater transparency in the budget papers of estimated/projected additional contributions to public sector superannuation.	Current disclosure via other government reporting modes considered adequate.
Further analysis and reporting of Victorian Public Sector statistics on trends in employment bands.	Information not readily available. Additional resources would be required to investigate further.
Improve Department of Economic Development, Jobs, Transport and Resources output budget to recognise events under negotiation to avoid significant under budgeting.	Not considered an accurate estimate of output as funding is based on secured events, not those which might proceed.
Improve public disclosure of financial payment information for public private partnership projects.	Current disclosure via other government reporting modes considered adequate.
Improve disclosure in the budget papers of public private partnership payment commitments over next 30 years.	Current disclosure in budget papers and other government reporting modes considered adequate.
The Department of Education and Training develop an output measure in the budget papers to show the accuracy of its asset expenditure estimates.	Working to improve the accuracy of expenditure estimates and explain variances.
The Department of Treasury and Finance establish a performance measure for land tax assessments made by the State Revenue Office.	Existing performance measures considered adequate.

Source: *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the Financial and Performance Outcomes*, received 24 November 2017, pp.4, 6, 9, 14, 17 and 19

Key findings

- Total revenue for the general government sector in 2016-17 was \$60.9 billion. This was \$4.2 billion (or 7.4 per cent) more than the previous year.
- Total output expenses for the general government sector were \$58.2 billion in 2016-17, which was \$4.2 billion (7.7 per cent) higher than 2015-16. Health employment spending was a significant factor in both the total expenditure growth and its variance from budget. There was a significant underspend of \$616 million on education projects in 2016-17.
- The operating result for the general government sector for 2016-17 was a surplus of \$2.7 billion, 1.7 per cent higher than the previous year. The general government sector was in a net lending position in 2016-17 of \$1.1 billion.
- Government infrastructure investment for 2016-17 was \$9.1 billion. This was a significant (91.5 per cent) increase over the previous year, and was also 21.3 per cent above the forecast in the budget papers. This increase was a result of the Government's decision to accelerate a number of capital projects.
- Net debt for the general government sector as at June 2017 was \$15.8 billion, 29.3 per cent lower than at June 2016, and 15.3 per cent lower than the original forecast. This is largely associated with the higher-than-expected price received for the Port of Melbourne lease.
- Revenue for the public non-financial corporations sector fell from the previous year, but was still higher than anticipated. Expenses grew over the year, leading to an operating deficit for the sector of \$436 million, which was not as severe as anticipated.
- By 2016-17, the level of asset investment in the public non-financial corporations sector was less than 40 per cent of the level between 2008-09 and 2010-11. As the majority of public non-financial corporations entities are water corporations, the falling levels of asset investment indicate that new or replacement infrastructure associated with these organisations is not occurring at the levels seen in 2008-09 to 2010-11, a time of significant investment in projects.
- While the public financial corporations sector made an operating deficit of \$2.0 billion in 2016-17, the increased investment returns on funds managed by the sector added an extra \$6.2 billion to the sector's overall result, producing a net \$4.2 billion surplus.

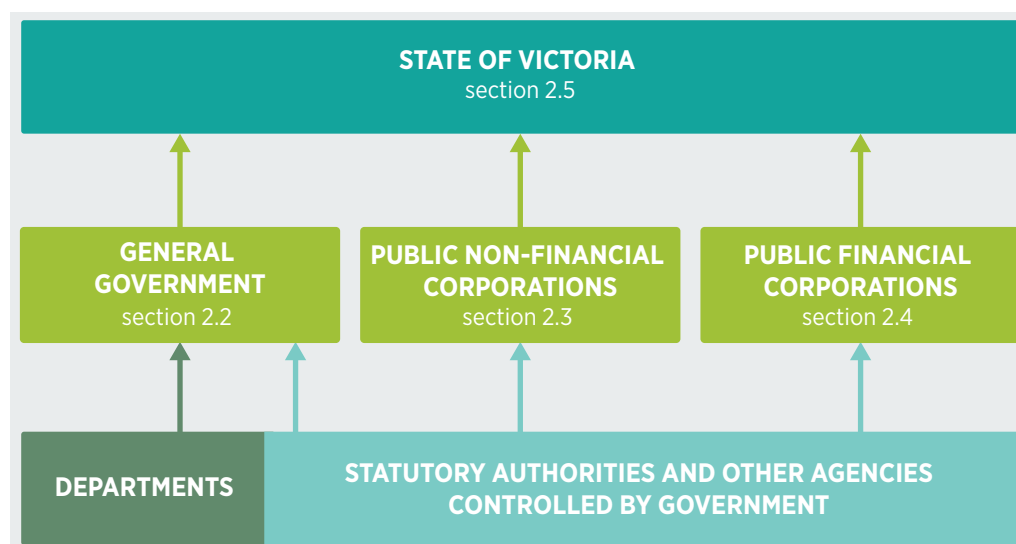
2.1 Introduction

This chapter provides an overview of the financial outcomes in 2016-17 for the State of Victoria, which is comprised of three sectors:

- the general government sector
- the public non-financial corporations (PNFC) sector
- public financial corporations (PFC) sector.

The way in which these sectors, together with government departments and entities, combine to form of the State of Victoria as a reporting entity are illustrated in the figure below.

Figure 2.1 The composition of the State of Victoria as a financial reporting entity



Source: Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.24

The general government sector ‘includes all government departments, offices and their bodies engaged in providing services free of charge or at prices significantly below their cost of production’.¹² The financial outcomes of this sector in 2016-17 are discussed in section 2.2 of this chapter.

Entities in the PNFC sector ‘provide goods and services in a competitive market that is non-regulatory and non-financial in nature...financed mainly through sales to the consumer of these goods and services’.¹³ The financial outcomes of this sector in 2016-17 are set out in section 2.3 of this chapter.

The PFC sector is comprised of entities mainly providing:

... financial intermediation services or auxiliary financial services and which have one or more of the following characteristics:

- They perform a central borrowing function;

¹² Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.24

¹³ *ibid.*

- They provide insurance services;
- They accept call, term or savings deposits; or
- They have the ability to incur liabilities and acquire financial assets in the market on their own account.¹⁴

The performance of the PFC sector in 2016-17 is examined in section 2.4 of this chapter. The final section of this chapter explores the overall financial outcomes for the State of Victoria.

2.2 Key financial outcomes for the general government sector

Overview of results for 2016-17

The cash that is required by the State for the provision of government services and asset investment comes from a range of sources, including revenue raised through various forms of taxation, as well as financing structures that can include cash inflows from one sector to another sector (for example, from the PNFC sector to the general government sector).

In 2016:

- *revenue* for the general government sector was \$60.9 billion. The majority (\$33.6 billion) was made up of revenue raised by the State, and the balance (\$27.3 billion) came through grants from the Commonwealth^(a)
- *asset sales*, whereby the Government sold assets such as land for development, totalled \$287 million^(b)
- *returns from investments in other sectors* were \$134 million.^(c) This was the net figure resulting from cash inflows worth \$11.3 billion (which the Committee understands is mostly a 'redemption of contributed capital'^(d) from the Port Lessor following its receipt of cash from the Lonsdale Consortium for the port lease transaction) and cash outflows of \$11.1 billion (which the Committee understands mostly includes the 'State Loan Facility' provided to the Port Lessor)^(e)
- the Government accepted a \$9.7 billion *advance* in addition to these sources of cash known as the 'Port Lessor Loan Facility' from the Melbourne Port Lessor.^(f) The funds were from the lease of the operations of the Port of Melbourne.

In total, the general government sector received \$7.1 billion in cash receipts during 2016-17.

Output expenses for 2016-17 were \$58.2 billion.^(g) These are the costs of goods and services for the State's consumption during the year, such as education and health services. As a result, the operating result, the excess of revenue over output expenses, was a surplus of \$2.7 billion.

The Government spent \$7.3 billion in *direct investment* into new infrastructure and other capital projects.^(h) This includes the costs of projects such as level crossing removals, new schools and road upgrades.

14 *ibid.*

The Government also repaid \$1.5 billion of the *advance from the Melbourne Port Lessor*.⁽¹⁾ This advance is intended to be repaid over the next seven years as demands are made on the Victorian Transport Fund. These repayments may contribute to new net debt over that time.

Newly-completed PPP projects in 2016-17 contributed \$544 million to net debt. The State's finances record the Government's commitment to pay the private sector over the life of a PPP project once the building stage of the project has been completed, resulting in an increase in net debt by that amount.

The rest of the available funds were used to *pay down net debt* by \$6.5 billion.⁽¹⁾

- (a) Department of Treasury and Finance, *2016-17 Financial Report* (2017), pp.30, 39
- (b) *ibid.*, pp.32, 113
- (c) *ibid.*
- (d) Melbourne Port Lessor Pty Ltd, *Financial Statements for the Year Ended 30 June 2017* (2017), p.2
- (e) *ibid.*
- (f) *ibid.*
- (g) Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.30
- (h) *ibid.*, p.32
- (i) Melbourne Port Lessor Pty Ltd, *Financial Statements for the Year Ended 30 June 2017* (2017), pp.2, 15
- (j) Calculation based on Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.31

2.2.1 Revenue

Total revenue for the general government sector was \$60.9 billion during 2016-17. Revenue received for the year was \$4.2 billion (7.4 per cent) more than for 2015-16, and \$548 million (0.9 per cent) more than was initially forecast.¹⁵

The growth in revenue for 2016-17 over the previous year was mostly from increased taxation revenue, primarily from property market related taxes and the Port of Melbourne licence fee. Grants from the Commonwealth also contributed to the growth, mainly through increases in specific purpose grants relating to the health and local government sectors.¹⁶

However, not all components of revenue grew over 2016-17. Dividends and similar revenue fell by \$190 million, primarily due to lower income tax equivalent revenue received from businesses in the PNFC sector.¹⁷ Other miscellaneous revenue was lower compared to 2015-16 which included the one-off \$540 million in revenue resulting from the State's win in the High Court relating to Tatts' gambling licences.

FINDING 1: Total revenue for the general government sector in 2016-17 was \$60.9 billion. This was \$4.2 billion (or 7.4 per cent) more than the previous year.

¹⁵ Department of Treasury and Finance, *2016-17 Financial Report* (2017), pp.30, 108

¹⁶ *ibid.*, p.109

¹⁷ *ibid.*, p.37

2.2.2 Output expenses

Output expenses for the general government sector fund ongoing services to the community, as well as goods that are intended to be used immediately. Output expenditure provides health, transport and education services, as distinct from funding investment in physical infrastructure such as hospitals, railways and schools.

Total output expenses for the general government sector were \$58.2 billion. This was a growth of \$4.2 billion (7.7 per cent) on the previous year. It was also \$709 million (1.2 per cent) more than anticipated.¹⁸

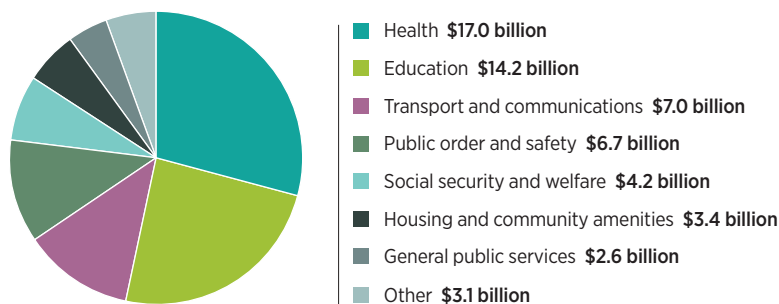
Figures from the Department of Treasury and Finance show that the growth in output expenses was driven by increases in employee expenses and grants, as well as some miscellaneous items.¹⁹

In comparison with budget estimates, grant expenses were higher than the original budget, but this was mitigated by lower-than-expected interest expenses and other items.²⁰

Major categories of output expenditure

The major categories for output expenses for 2016-17 are shown in Figure 2.2. The majority of output expenses (53.5 per cent) in 2016-17 went to health and education. Transport and communications (12.0 per cent), along with public order and safety (11.6 per cent) were the next largest categories. Transport and communications is the largest category for asset expenditure (see Chapter 6).

Figure 2.2 Output expenses by category, 2016-17



Source: Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.48

¹⁸ *ibid.*, pp.30, 108

¹⁹ *ibid.*, p.30

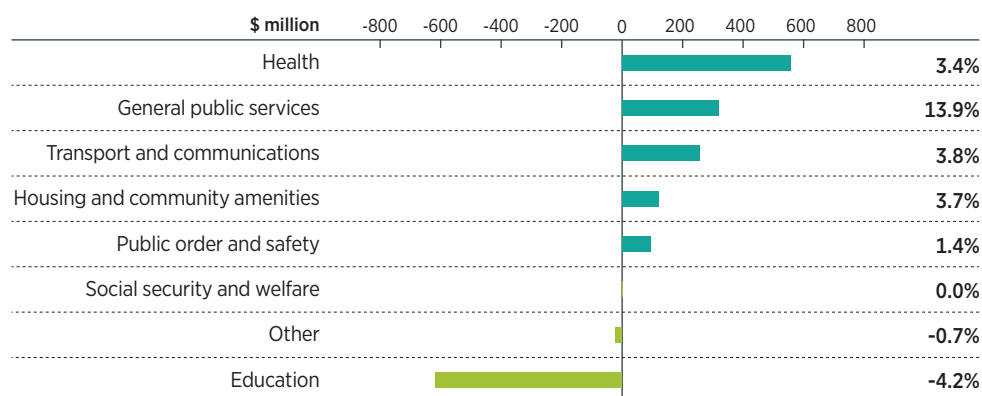
²⁰ *ibid.*, p.108

How the spending by category differed to what was anticipated in the original budget estimates is illustrated in Figure 2.3. This figure shows that the Government spent more on health, general public services and transport and communications than originally anticipated. This was due to:

- more health-related activities delivered than originally forecast which meant National Health Reform Agreement spending was higher, in addition to higher hospital expenditure driven from hospitals' own source revenue and extra funding for health services.²¹
- reclassification of goods and services tax (GST) administration costs into the general public services category in 2016-17, as well as additional spending on land and infrastructure-related activity and policy advice, including establishing the Office of Projects Victoria.²²
- additional spending on transition assistance grants in the transport and communications category for taxi licence holders as part of the Government's taxi, hire car and ride share industry reforms.²³

The Government spent significantly less (\$616 million) on education than anticipated as a result of 'differences in the timing of activities across a number of education projects'.²⁴ It is unclear to the Committee whether the projects have been delayed, deferred or cancelled. Furthermore, the consequences of the underspend for students and the wider community on education projects is not explained in the Department's annual report.

Figure 2.3 Output expenses by category, variance from 2016-17 budget



Sources: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.32; Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.48

21 Department of Treasury and Finance, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 13 November 2017, p.34

22 *ibid.*

23 *ibid.*, p.35

24 *ibid.*, p.34

Employee expenses in the health sector

The Department of Treasury and Finance explained that overall higher-than-expected employee expenses in the general government sector in 2016-17 were due to:

... higher salary expenses in hospitals to meet higher than expected demand.²⁵

The Committee also notes that the Department of Health and Human Services reported total employee benefits expenditure is \$600 million higher than the original budget.²⁶ In contrast to the Department of Treasury and Finance, the Department of Health and Human Services explained the variance as being:

... due to increased costs of Enterprise Bargaining Agreements (EBAs) across the hospital entities in 2016-17.²⁷

Expenses, and in particular the unexpected growth in health employment expenditure, are discussed further in Chapter 5.

FINDING 2: Total output expenses for the general government sector were \$58.2 billion in 2016-17, which was \$4.2 billion (7.7 per cent) higher than 2015-16. Health employment spending was a significant factor in both the total expenditure growth and its variance from budget. There was a significant underspend of \$616 million on education projects in 2016-17.

2.2.3 Operating and net lending/borrowing results for 2016-17

Each year, the Committee examines two different indicators that relate to the year's results. These are the operating result²⁸ and the net lending/borrowing indicator²⁹ shown in Figure 2.4.

²⁵ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.109

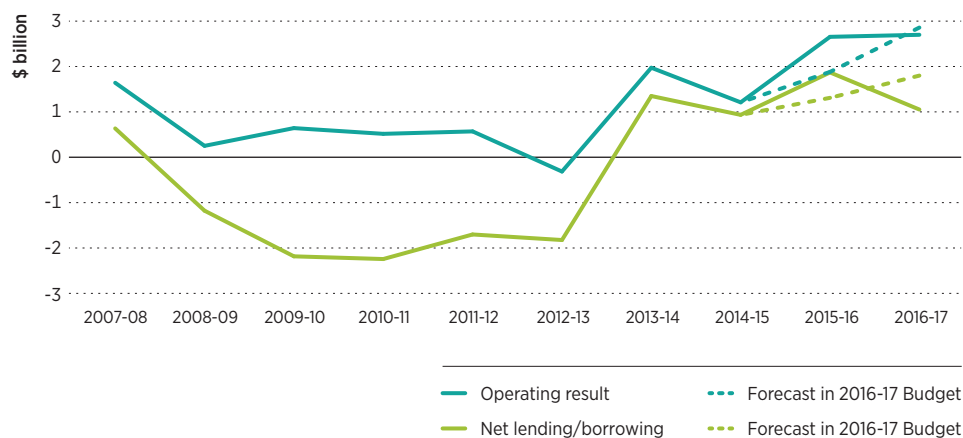
²⁶ Department of Health and Human Services, *Annual Report 2016-17* (2017), p.209

²⁷ *ibid.*, p.210

²⁸ The operating result compares revenue with output expenses. This indicator includes some non-cash components, such as depreciation. The operating result also excludes asset expenditure.

²⁹ The net lending/borrowing indicator adjusts the operating result by including some (but not all) asset expenditure, as well as removing depreciation. However, some asset revaluation effects are included in the indicator, despite only being potential transactions. However, the net lending/borrowing indicator excludes investments made through other sectors. This is included in the cash flow statement as 'net cash flows from investments in financial assets for policy purposes'. In addition, it includes changes in values of certain assets, which may never be realised in actual cash transactions. Direct investment (net of asset sales) is included in the indicator, but investment through other sectors is not.

Figure 2.4 Operating result and net lending/borrowing, general government sector, 2007-08 to 2016-17



Source: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2017)

The operating result is the excess of revenue over output expenses. In 2016-17 the operating result was a surplus of \$2.7 billion.³⁰ The operating result has predominantly been a surplus over the last ten years.³¹

The figure also shows that the 2016-17 operating result was slightly (1.7 per cent) higher than 2015-16, but that it was 5.6 per cent less than had been forecast at the time of the 2016-17 Budget.³²

The general upward trend in operating surplus over the past five years has been partly due to the strengthening economy, which is captured through greater levels of State-based revenue such as land taxes, as well as GST grants from the Commonwealth.

In contrast to the operating result, the net lending/borrowing indicator fell 43.8 per cent between 2015-16 and 2016-17 to a net lending position of \$1.1 billion. This was a result of the increase in asset investment for the year. In comparison to the original target, the net lending/borrowing figure was 41.5 per cent below the forecast figure, again due to funding the higher-than-forecast level of direct asset investment.³³

FINDING 3: The operating result for the general government sector for 2016-17 was a surplus of \$2.7 billion, 1.7 per cent higher than the previous year. The general government sector was in a net lending position in 2016-17 of \$1.1 billion.

³⁰ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.30

³¹ The operating result for 2012-13 was initially reported as a surplus of \$316.4 million (Department of Treasury and Finance, *2012-13 Financial Report* (2013), p.25). However this was restated in the 2013-14 finances following a change in the accounting standards, which ceased the practice of including changes in future expected value of superannuation funds under total expenses. As a result, the operating result for 2012-13 now appears as a deficit.

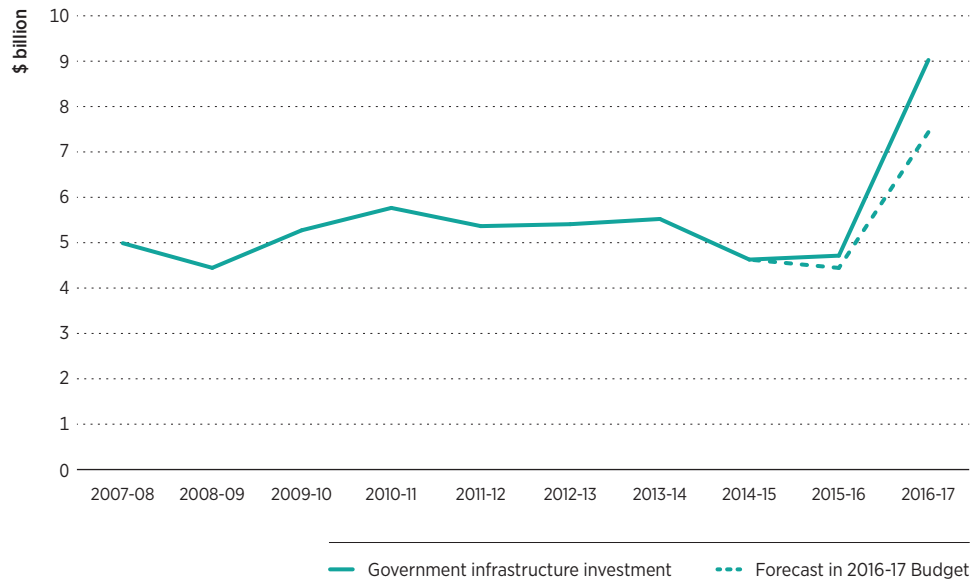
³² Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.30; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.6

³³ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.30; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.7

2.2.4 Asset investment

Government infrastructure investment totalled \$9.1 billion in 2016-17. This was a \$4.3 billion (91.5 per cent) increase over 2015-16, and was also \$1.6 billion (21.4 per cent) above the initial forecast.³⁴

Figure 2.5 Government infrastructure investment, 2007-08 to 2016-17



Source: Department of Treasury and Finance, *Net Infrastructure Investment* (2017)

Figure 2.5 shows a sharp increase in infrastructure investment in 2016-17. This growth was principally due to a \$2.8 billion increase in direct asset investment,³⁵ as well as a \$1.6 billion increase in cash outflows for PPP projects.³⁶ This was a result of the Government's decision to accelerate a number of asset expenditure projects, most notably the level crossing removal projects.³⁷

In 2016-17, government infrastructure investment was reported to be \$1.6 billion (21.4 per cent) higher than the original estimate.³⁸ The bulk of the variance was a result of cash outflows for PPP projects, being \$1.1 billion (93.5 per cent) higher than anticipated.³⁹ There is no explanation regarding changes in PPP expenditure in the discussion on government infrastructure investment in the *2016-17 Financial Report*.⁴⁰

³⁴ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.10; Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.10; Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.15

³⁵ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.32

³⁶ Department of Treasury and Finance, *Net Infrastructure Investment* (2017)

³⁷ Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.9

³⁸ Committee calculations based on Department of Treasury and Finance, *Net Infrastructure Investment* (2017)

³⁹ *ibid.*

⁴⁰ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.10

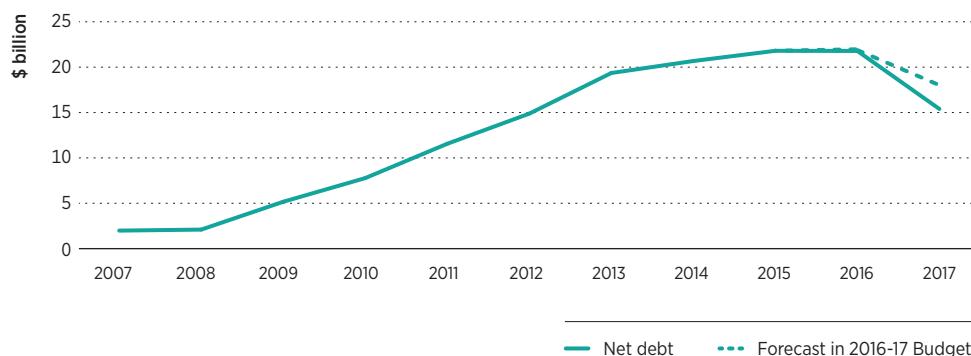
FINDING 4: Government infrastructure investment for 2016-17 was \$9.1 billion. This was a significant (91.5 per cent) increase over the previous year, and was also 21.3 per cent above the forecast in the budget papers. This increase was a result of the Government's decision to accelerate a number of capital projects.

2.2.5 Net debt

Net debt consists of the difference between liabilities and assets that are easily convertible into cash. That is, it excludes what are defined as 'non-financial' assets or liabilities such as land or likely future superannuation costs.

Net debt for the general government sector at 30 June 2017 was \$15.8 billion, a decrease of \$6.5 billion (29.3 per cent) from the June 2016 level.⁴¹ This was also \$2.8 billion (15.3 per cent) lower than had been originally forecast in the 2016-17 budget papers.⁴² This is shown in an historical perspective in Figure 2.6.

Figure 2.6 Net debt, general government sector, 2007 to 2017^(a)



(a) Balances at 30 June each year.

Source: Department of Treasury and Finance, *Consolidated Balance Sheet – General Government Sector (2017)*

The June 2017 result for net debt was significantly less than had been expected at the time of the 2016-17 Budget. This is primarily associated with the higher-than-anticipated price received for the lease of the operations at the Port of Melbourne.

However, the Committee notes that expenditure on a number of capital projects has been accelerated, taking advantage of what the Government describes as a 'prudent use of debt'.⁴³ While Figure 2.6 shows the net debt result as at June 2017 was the first year-on-year decrease in net debt over the last decade, the Government expects net debt levels to increase in the next few years.

FINDING 5: Net debt for the general government sector in June 2017 was \$15.8 billion, 29.3 per cent lower than June 2016, and 15.3 per cent lower than the original forecast. This is largely associated with the higher-than-expected price received for the Port of Melbourne lease.

⁴¹ *ibid.*, p.31

⁴² *ibid.*, p.111

⁴³ Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program (2017)*, p.8

2.3 Public non-financial corporations sector

The public non-financial corporations (PNFC) sector is made up of Government-owned business enterprises (such as water corporations and cemetery trusts) that raise the bulk of their revenue from charging clients for their services. This year, the sector includes the Melbourne Port Lessor,⁴⁴ which leased the operations of the Port of Melbourne to the Lonsdale Consortium.

Selected overall results for the year are summarised in Table 2.1 below.

Table 2.1 Major sources and uses of cash, public non-financial corporations sector, 2016-17

	(\$ million)
Sources of funds	
Operating revenue	10,318
Depreciation and similar non-cash items ^(a)	10,826
Advance received ^(b)	9,703
Repayment of Port Lessor Loan Facility	1,507
Asset sales	187
Uses of funds	
Output expenses	10,754
Direct investment	1,818
Advance paid to general government sector ^(c)	9,706
Financing outflow to general government sector ^(d)	8,619
Repayment of State Loan Facility	1,431
Decrease in net debt	182

(a) Primarily cash received in advance from the Lonsdale Corporation for port licence fees for 15 years.

(b) Primarily the 'State Loan Facility' received from the general government sector.

(c) Primarily the 'Port Lessor Loan Facility' paid to the Department of Treasury and Finance.

(d) The Committee understands that this is primarily the funds received from the Lonsdale Consortium that were remitted to the Victorian Transport Fund.

Source: Committee calculations based on Department of Treasury and Finance, *2016-17 Financial Report (2017)*, pp.130-4

Comparing operating revenue and output expenditure shows that the sector made an operating deficit of \$436 million, but had other sources of cash during 2016-17, including non-cash costs and asset sales. The largest source of funds was the lump sum payment of port licence fees⁴⁵ for 15 years in advance by the Lonsdale Consortium.⁴⁶ However, on receipt, the cash received was immediately remitted out of the PNFC sector to the Victorian Transport Fund.⁴⁷

Table 2.1 also shows two loan facilities, the 'Port Lessor Loan facility' and the 'State Loan Facility' along with repayments for one year.

⁴⁴ Department of Treasury and Finance, *2016-17 Financial Report (2017)*, p.148

⁴⁵ which normally contribute to the 'sales of goods and services' component of revenue for the sector

⁴⁶ *Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Act 2016* s.44HA

⁴⁷ Melbourne Port Lessor Pty Ltd, *Financial Statements for the Year Ended 30 June 2017 (2017)*, p.2

During the year, cash that remained in the PNFC sector allowed entities within the sector to invest in new assets, including upgrading and renewal of water and sewerage assets in metropolitan and rural areas,⁴⁸ and lowered net debt by \$182 million.⁴⁹

However, net worth of the sector fell due to the 'payables' liability relating to the up-front nature of the cash received by the Lonsdale Consortium.⁵⁰ This type of liability is not counted in 'net debt' for the sector, and is intended to remain in the PNFC sector.⁵¹

FINDING 6: Results for the public non-financial corporations sector enabled a \$182 million decrease in net debt. Cash received from the Lonsdale Consortium for port licence fees was remitted to the general government sector.

The Committee notes that a number of items in Table 2.1 relate to the Port Lease transaction. This means that there is limited use in making a comparison with results for 2015-16.

In addition, the Committee notes that a number of items were presented in the budget papers as an amalgamation of items that were presented separately in the *2015-16 Financial Report*. Such amalgamation lessens the usefulness of comparisons of results against budget figures. The Committee notes that these amalgamated figures were presented in the budget papers for reasons of 'commercial sensitivities'.⁵²

2.3.1 Operating results

Revenue, expenses and operating results for the PNFC sector are shown in Figure 2.7.

Revenue for the PNFC sector for 2016-17 was \$10.3 billion. This was \$55 million (0.5 per cent) below the previous year's revenue.⁵³

Factors influencing the contraction in revenue included:

- a \$277 million reduction in 'other revenue', after a higher-than-normal level in 2015-16 due to a Government decision to forgive a debt to the Director of Housing⁵⁴
- a \$108 million reduction in sales of goods and services
- a mitigating \$242 million increase in grant revenue.⁵⁵

48 Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.18

49 *ibid.*, p.132

50 'Payables' for the sector rose from \$1.5 billion in June 2016 to \$10.2 billion in June 2017. (Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.132)

51 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.49

52 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.44

53 Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.130

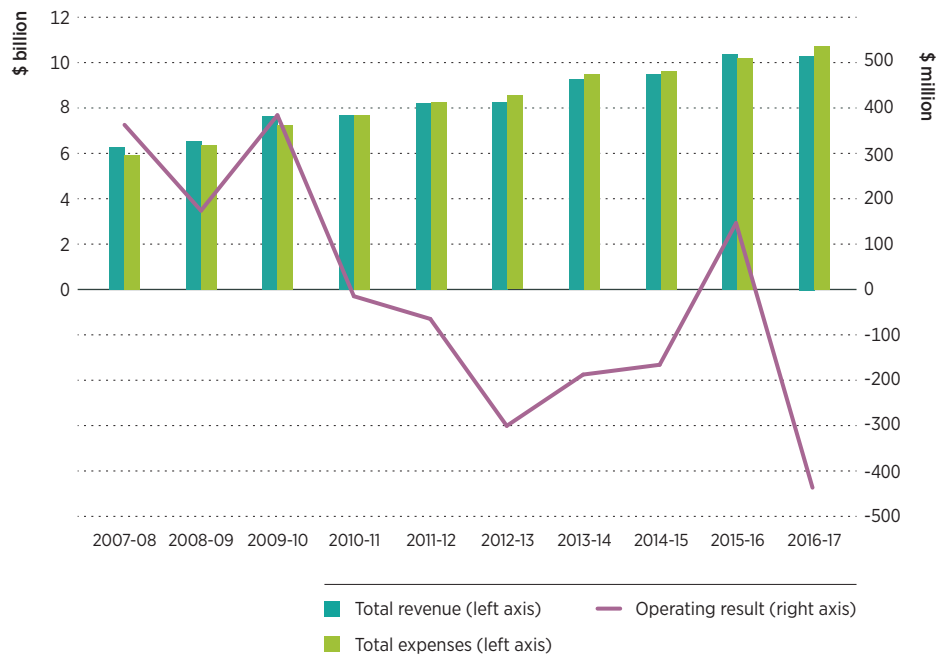
54 Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.15

55 Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.130

Expenses for the sector were \$10.8 billion, an increase of \$535 million (5.2 per cent). Expenses are broken down into a number of components in the sector’s finances, including employee, superannuation, interest and grant expenses. Each of these components increased during the year apart from ‘other property expenses’, which decreased by \$194 million.⁵⁶

Figure 2.7 shows that the operating result for the PNFC sector was a deficit of \$436 million, after a surplus in 2015-16 of \$154 million.⁵⁷ The deficit was a result of revenue in the sector falling over 2016-17, while expenses continued to rise. A \$669 million deficit was forecast in the original budget estimate, so the actual operating deficit for 2016-17 was \$233 million (34.8 per cent) better than the original forecast.⁵⁸

Figure 2.7 Revenue, expenses and operating result for the public non-financial corporations sector, 2007-08 to 2016-17



Source: Department of Treasury and Finance, *Financial Report*, 2007-08 to 2016-17

FINDING 7: Revenue for the public non-financial corporations sector fell from the previous year, but was still higher than anticipated. Expenses grew over the year, leading to an operating deficit for the sector of \$436 million, which was not as severe as anticipated.

56 *ibid.*

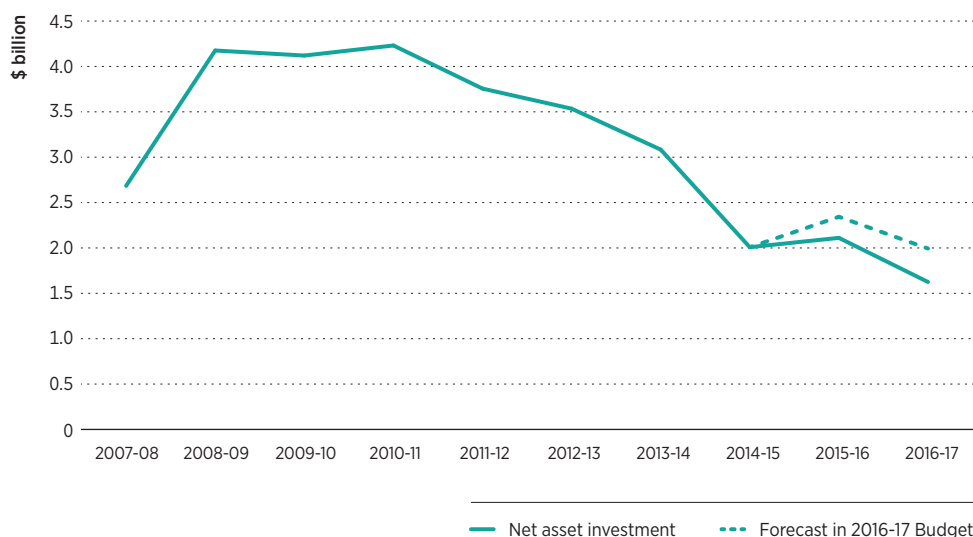
57 *ibid.*

58 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.43

2.3.2 Asset investment in 2016-17

During 2016-17, PNFC entities invested \$1.6 billion on asset investment. This is a decrease of \$488 million (23.0 per cent) on the amount invested in 2015-16.⁵⁹ It is also \$370 million (18.5 per cent) less than had been forecast in the 2016-17 Budget. Net asset investment by the PNFC sector in recent years is shown in Figure 2.8.

Figure 2.8 Net asset investment^(a) for the public non-financial corporations sector, 2007-08 to 2016-17



(a) Known in the budget papers as 'net cash flows from investments in non-financial assets'.

Source: Department of Treasury and Finance, *Financial Report*, 2008-09 to 2016-17

The decrease in asset investment by the PNFC sector between 2015-16 and 2016-17 continues the trend over the past seven years. By 2016-17, the level of asset investment in the sector was less than 40 per cent of the level between 2008-09 and 2010-11, which was a time of significant investment in projects.

As the majority of PNFC entities are water corporations, the falling levels of asset investment indicate that new or replacement infrastructure associated with these organisations is not occurring at the levels seen in 2008-09 to 2010-11. The Auditor-General also recently noted the downward trend in asset replacement in the water sector, particularly for urban regional corporations.⁶⁰ The Auditor-General commented:

Regional urban water entities need to recognise declining trends and assess the longer-term risks to their capacity to replace assets at a pace that matches their consumption. Entities with long-lived infrastructure assets require comprehensive asset renewal strategies to support the long-term replacement of core assets.⁶¹

⁵⁹ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.134

⁶⁰ These are: Barwon Water, Central Highland Water, Coliban Water, East Gippsland Water, Gippsland Water, Goulburn Valley Water, GWM Water, Lower Murray Water, North East Water, South Gippsland Water, Wannon Water, Western Water and Westernport Water.

⁶¹ Victorian Auditor-General's Office, *Results of the 2016-17 Audits: Water Entities* (2017), p.51

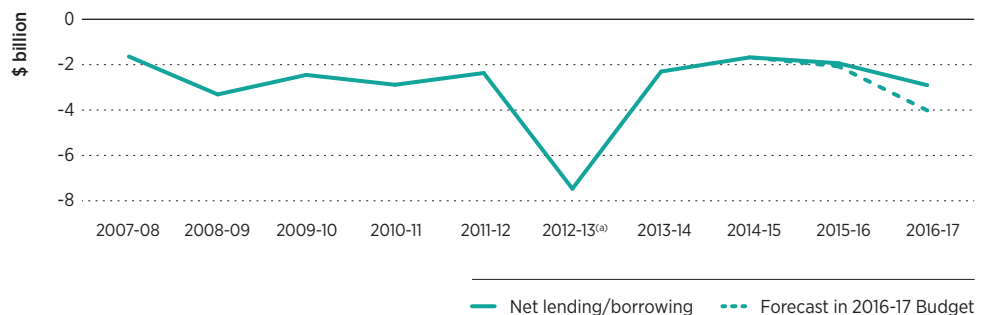
FINDING 8: By 2016-17, the level of asset investment in the public non-financial corporations sector was less than 40 per cent of the level between 2008-09 and 2010-11. As the majority of public non-financial corporations are water corporations, the falling levels of asset investment indicate that new or replacement infrastructure associated with these organisations is not occurring at the levels seen in 2008-09 to 2010-11, which was a time of significant investment in projects.

2.3.3 Net lending/borrowing

The net lending/borrowing level is distinct from the operating result as it takes some asset investment into account, as well as changes in values of some non-financial (or physical) assets. Net lending/borrowing is shown over time in Figure 2.9, indicating the PNFC sector has been a net borrower over the last decade.

The net borrowing position for the sector indicates that depreciation and other non-cash items, coupled with changes in fund values and asset sales, were not sufficient to fund the infrastructure investment made during the year.⁶² As a result, borrowings for the year rose slightly.

Figure 2.9 Net lending/borrowing for the public non-financial corporations sector, 2007-08 to 2016-17



(a) The result for 2012-13 is related to the commissioning of the desalination plant.

Source: Department of Treasury and Finance, *Financial Report*, 2007-08 to 2016-17

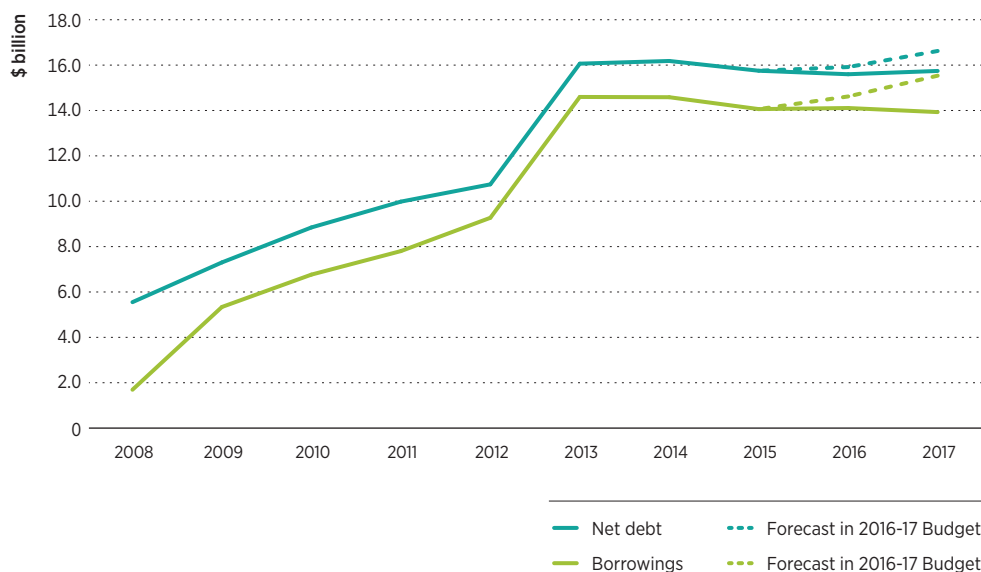
Figure 2.9 also shows that the net borrowing position was not as severe as had been forecast. This was due to the smaller-than-expected operating deficit for the PNFC sector combined with the less-than-predicted level of asset investment discussed above.

2.3.4 Borrowings and net debt

Figure 2.10 shows that both borrowings and net debt for the PNFC sector remained stable for the year, with borrowings rising slightly (0.9 per cent) and net debt falling slightly (1.3 per cent). The difference was largely due to a build-up in cash and deposits.⁶³

⁶² Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.130

⁶³ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.132

Figure 2.10 Borrowings and net debt, public non-financial corporations sector, 2008 to 2017^(a)

(a) Balances at 30 June each year.

Source: Department of Treasury and Finance, *Financial Report*, 2008-09 to 2016-17

Impact of the port lease transaction on 'payables' and net assets

During 2016-17, 'payables', a non-financial liability increased in the PNFC sector from \$1.5 billion to \$10.2 billion. This was sufficient to cause net assets for the sector to fall from \$92.2 billion to \$89.1 billion.⁶⁴ The Committee notes that this is the first time total assets for the sector have fallen in at least a decade.⁶⁵

The increased liability was a result of the port lease transaction, where the Lonsdale Consortium made a cash payment to Melbourne Port Lessor.

Part of the funds received represented payment of port licence fees for 15 years in advance.⁶⁶ Because of this, by the end of 2016-17, only one year of the port lease fees had been 'earned', with the balance of the advance payment still 'unearned'. In the State's finances, while the bank account rose by the full amount received, a balancing liability ('payables') was also created, reflecting the 14 years' worth of port lease fees still to be 'earned'.

Following receipt of the cash advance:

... proceeds received from the Lonsdale Consortium were deposited directly into the VTF [Victorian Transport Fund]. The VTF is a trust fund within the public account administered by the Department of Treasury & Finance on behalf of the Treasurer of Victoria.⁶⁷

⁶⁴ *ibid.*

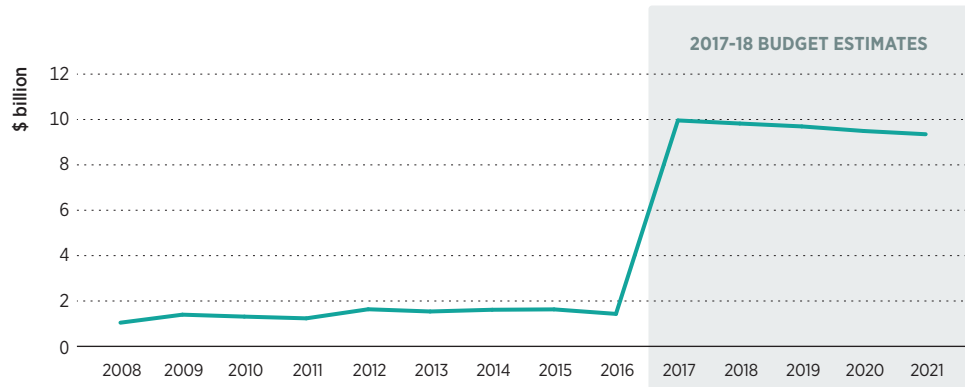
⁶⁵ Department of Treasury and Finance, *Financial Report*, 2007-08 to 2016-17

⁶⁶ *Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Act 2016* s.44HA

⁶⁷ Melbourne Port Lessor Pty Ltd, *Financial Statements for the Year Ended 30 June 2017* (2017), p.2

The \$8.7 billion increase in the 'payables' liability is shown in Figure 2.11, which shows its level since June 2008, including the Government's latest forecasts to June 2021. Figure 2.11 also shows that after June 2017, the liability is anticipated to decrease gradually, as funds that were paid in advance are 'earned'.⁶⁸

Figure 2.11 Payables liability, public non-financial corporations sector, 2008 to 2017 and forward estimates^(a)



(a) Balances at 30 June each year.

Sources: Department of Treasury and Finance, *Financial Report, 2008-09 to 2016-17*; Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances (2017)*, p.49

The Department of Treasury and Finance explained that:

The net asset position of the PNFC sector decreased mainly due to an increase in payables relating to unearned income associated with the Port of Melbourne lease transaction.⁶⁹

FINDING 9: Cash for the port lease transaction was received in advance by the public non-financial corporations sector and then remitted to the Victorian Transport Fund. This resulted in an \$8.7 billion increase in a non-financial liability for the sector. Because the cash received was remitted to the general government sector, there was no effect on net debt for the public non-financial corporations sector. The remittance lowered the Government's equity in the public non-financial corporations sector.

2.4 Public financial corporations sector

The public financial corporations (PFC) sector is made up of government-owned financial services institutions providing finance, investing and insurance services, mainly to other Government-owned entities. Importantly, PFC entities generate value in two distinct ways, through operations (that is, by charging fees for financial and other services), and through 'other economic flows', or growth in the value of assets and liabilities under their management. These components combine to form the 'net result' for the sector.

⁶⁸ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances (2016)*, p.45; cf. Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances (2017)*, p.49

⁶⁹ Department of Treasury and Finance, *2016-17 Financial Report (2017)*, p.18

While the PFC sector did not fare well in 2016-17 in terms of the operational result, this was offset by strong returns in the investment funds under the sector's management, so overall the sector experienced a strong net result for the year.

2.4.1 Operating result

Total revenue for entities in the PFC sector was \$7.5 billion, a \$99 million (1.3 per cent) fall on the previous year's revenue.⁷⁰ This was also \$345 million less than was anticipated in the 2016-17 Budget.⁷¹

Expenses for the sector rose by \$1.1 billion (12.9 per cent) to \$9.5 billion for the year.⁷² This was a greater rise than had been anticipated, 'mainly due to an increase in insurance claims costs and higher accrued income tax equivalents'.⁷³ As a result expenses were \$657 million (7.4 per cent) higher than predicted.⁷⁴

Revenue and expenses led to an operating result for the sector of a \$2.0 billion deficit. This deficit was \$1.2 billion (148.4 per cent) larger than for 2015-16,⁷⁵ and \$1.0 billion (102.5 per cent) larger than had been predicted.⁷⁶

2.4.2 Net result

The net result for the sector combines the operating result with 'other economic flows'. The Committee considers this to be a more useful indicator of financial performance as changes in the value of assets and liabilities form a significant part of the performance of the sector.

In contrast to the operating result, the non-operational side of the sector performed strongly during the year. The Department of Treasury and Finance noted that:

The majority of the favourable movements are reported in the net result as part of other economic flows.⁷⁷

As a result, the net result for the PFC sector for 2016-17 was \$4.2 billion, a \$6.7 billion (-273.7 per cent) improvement on the 2015-16 net result of -\$2.4 billion.⁷⁸ As an indication of the scale, this growth equates to 9.8 per cent

70 *ibid.*, p.131

71 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.59

72 Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.131

73 *ibid.*, p.15

74 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.59

75 Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.131

76 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.59

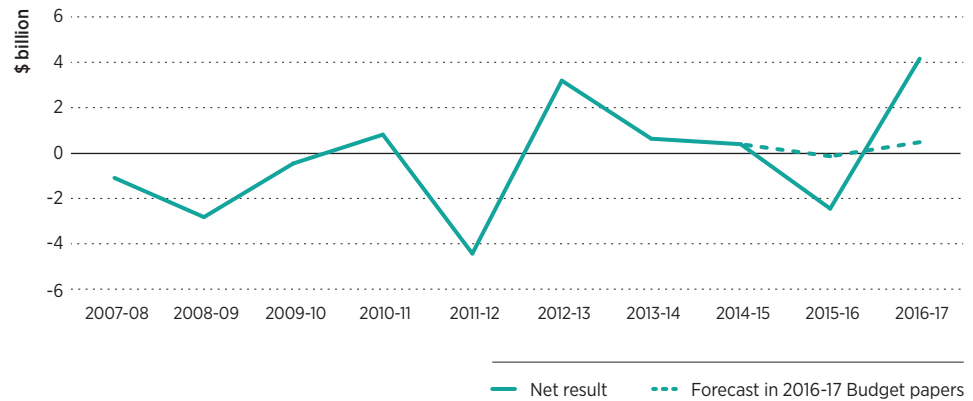
77 Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.15

78 *ibid.* p.131

of the whole of the State's revenue,⁷⁹ and more than the value of the *West Gate Tunnel Project*.⁸⁰ This was also a \$3.7 billion (716.2 per cent) variance from the original budget estimate of \$519 million.⁸¹

The net result for the PFC sector over the past ten years is shown in Figure 2.12.

Figure 2.12 Net result, public financial corporations sector, 2007-08 to 2016-17



Sources: Department of Treasury and Finance, *Financial Report*, 2007-08 to 2016-17; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.59

Figure 2.12 shows that the net result for the PFC sector is highly volatile over time. The two components of the net result (net operating result and 'other economic flows') are shown in Figure 2.13, showing that the volatility in the net result occurs mainly from fluctuations in other economic flows. The Committee has commented previously on this volatility, as well as the difficulty in forecasting the figure each year.⁸²

Figure 2.13 Components of net result, public financial corporations sector, 2007-08 to 2016-17



Source: Department of Treasury and Finance, *Financial Report*, 2007-08 to 2016-17

79 *ibid.*, p.30

80 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.29

81 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.59

82 Most recently, Public Accounts and Estimates Committee, *Report into the 2017-18 Budget Estimates* (2017), pp.45-6

Further to this, estimates made by the Department of Treasury and Finance of the net result have also fluctuated heavily between the first estimate provided in the budget papers and the actual result published in the Annual Financial Report.

Discussion of the net result in the *2016-17 Financial Report* is confined to the State of Victoria as a financial reporting entity level and not disaggregated to the PFC sector.⁸³ The Department of Treasury and Finance indicates that ‘other economic flows’ were boosted by a combination of increased investment returns on investment portfolios resulting from favourable global conditions and decreased estimates of future liabilities resulting from higher bond rates.⁸⁴

The Committee considers that a more detailed explanation of the significant fluctuations from year to year and variations from estimates given in the budget papers would better inform the reader of what causes these changes. These may include a discussion of macroeconomic factors such as changes in bond rates, as well as the make-up of the portfolio of assets and liabilities held by the sector. Because the operational and non-operational components of net result can differ, a useful explanation would discuss these components separately.

FINDING 10: The public financial corporations sector made an operating deficit of \$2.0 billion in 2016-17. However, increased investment returns on funds managed by the sector added \$6.2 billion to the sector’s overall result, producing a net \$4.2 billion surplus.

FINDING 11: The net result for the public financial corporations sector has fluctuated significantly in the past, with the growth between 2015-16 and 2016-17 reaching \$6.7 billion.

RECOMMENDATION 1: Due to the historic volatility of the net result for the public financial corporations sector and its significant variance from budget estimates, future Annual Financial Reports contain a specific explanation for growth from the previous year and variance from original estimates. These explanations should separate the operating result and other economic flows, and discuss any relevant macroeconomic factors in more detail.

RECOMMENDATION 2: When estimates of the net result for the public financial corporations sector are altered by more than \$1 billion in any direction in a budget update or a subsequent set of budget papers, a detailed explanation be provided of the updated estimate, including reasons why the estimate has changed.

⁸³ Department of Treasury and Finance, *2016-17 Financial Report* (2017), pp.16-17

⁸⁴ *ibid.*, p.17

2.5 State of Victoria

The State of Victoria as a financial reporting entity is an amalgamation of the three previously discussed sectors (the general government sector, the public non-financial corporations, and the public financial corporations). In amalgamating these three sectors, transactions between sectors are eliminated to avoid double-counting.

Because of this amalgamation, most events seen in the public sector as a whole are largely a reflection of activity in the sectors already discussed above, principally the general government sector.

At the State of Victoria level, the amount spent on infrastructure and other capital projects was greater than the amount generated by operations, supplemented by cost allowances not requiring cash. This resulted in the State being a net borrower in 2016-17.⁸⁵ Despite this, net debt for the State decreased by \$12.4 billion during the year.⁸⁶

2.5.1 Operating results and net lending/borrowing

Total revenue for the State of Victoria was \$68.8 billion. This was an increase of \$4.1 billion (6.3 per cent) over the 2015-16 result, and \$1.0 billion (1.5 per cent) above the original budget forecast.⁸⁷

Revenue from transactions totalled \$68.1 billion, which was \$5.0 billion higher than the previous year. This was also \$646 million higher than had been originally anticipated.⁸⁸

As a result, the net operating result for the State of Victoria was a surplus of \$754 million. While this was \$890 million (54.1 per cent) lower than the 2015-16 result, it was \$374 million larger than had been anticipated in the 2016-17 Budget.⁸⁹ The net operating results for the State of Victoria are shown in Figure 2.14.

⁸⁵ *ibid.*, p.131

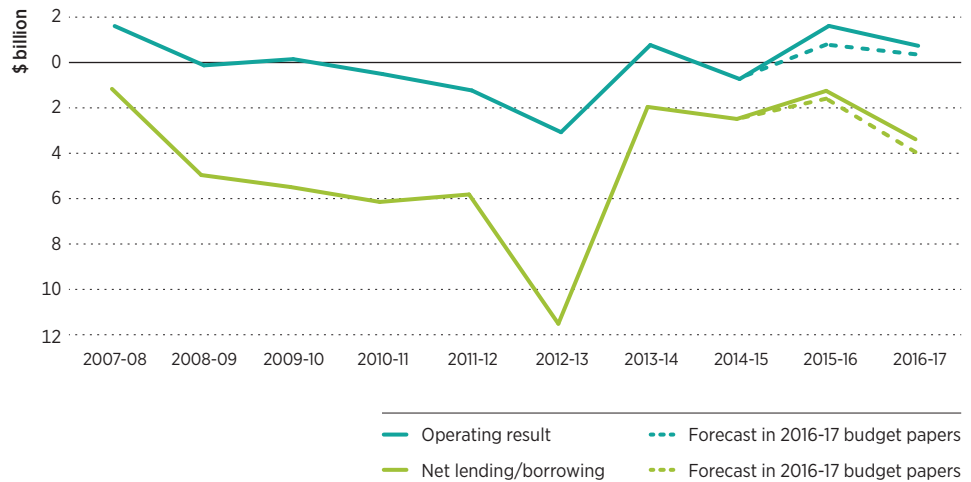
⁸⁶ *ibid.*, p.133

⁸⁷ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.65; Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.30

⁸⁸ *ibid.*

⁸⁹ *ibid.*

Figure 2.14 Net operating result and net lending/borrowing, State of Victoria, 2007-08 to 2016-17



Sources: Department of Treasury and Finance, *Financial Report, 2007-08 to 2016-17*; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances (2016)*, p.66

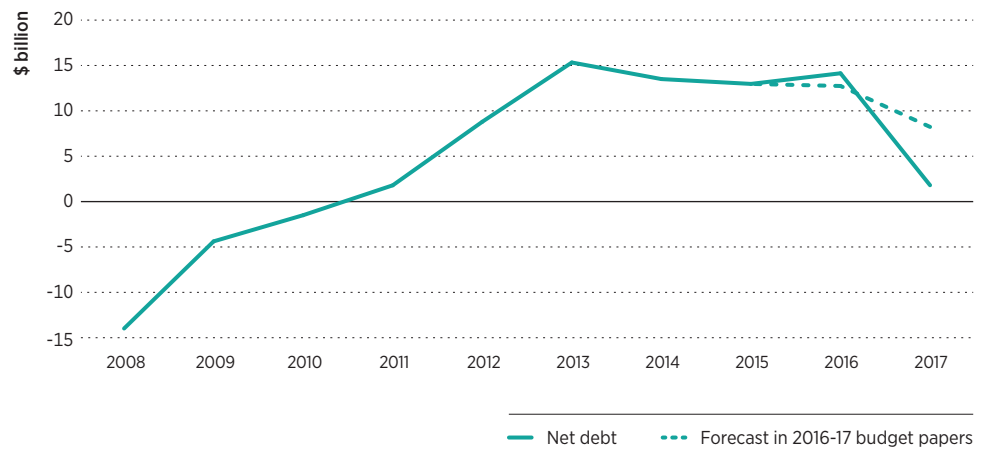
As discussed the difference between the net operating result in net lending/borrowing is made up of asset investment and the changing value of assets. Changes in asset values were relatively small, as decreases in the general government sector were largely balanced by increases in the PNFC sector. For this reason, the net lending/borrowing indicator is negative because the net result and non-cash costs were not sufficient to pay for the investment the State made in infrastructure.

FINDING 12: In 2016-17 the State of Victoria was in a net borrowing position as the larger-than-expected net operating surplus together with non-cash costs did not provide sufficient cash to fund the State’s infrastructure investment.

2.5.2 Net debt

In contrast to the net borrowing position, net debt for the State of Victoria fell significantly (87.1 per cent) over 2016-17, from \$14.2 billion to \$1.8 billion.⁹⁰ This is shown in Figure 2.15 below.

90 Department of Treasury and Finance, *2016-17 Financial Report (2017)*, p.31

Figure 2.15 Net debt, State of Victoria, 2008 to 2017^(a)

(a) Balances at 30 June each year

Sources: Department of Treasury and Finance, *Financial Report*, 2007-08 to 2016-17; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.66

The significant fall in net debt for the State of Victoria in 2016-17 largely reflects the cash received from the port lease transaction.

Key findings

- The general government sector's revenue was \$60.9 billion in 2016-17. This outcome is an increase of 7.4 per cent compared to 2015-16 and is 0.9 per cent higher than the amount anticipated in the 2016-17 Budget.
- In 2016-17, \$27.3 billion or 44.9 per cent of the Government's total revenue came from Commonwealth grants. Most of the Commonwealth grant revenue were general purpose grants, or goods and services tax revenue, which was \$13.6 billion.
- Specific purpose grants from the Commonwealth were \$9.9 billion, \$702 million (7.7 per cent) higher than the previous year, and \$140 million (1.4 per cent) greater than the original budget estimate. The increase was driven by higher payments made as part of the *National Health Reform Agreement*, where the Commonwealth contributes to State based health services and funding.
- The prepaid port license fees associated with the Port of Melbourne's lease of operations was reported under 'other taxes' in the *2016-17 Financial Report*. As a result, 'other taxes' were \$1.9 billion in 2016-17, an increase of \$859.8 million over the previous year, but only a \$4.3 million variance (0.2 per cent) over the original budget estimate.
- The strong property sector has driven increases in the property-related revenue streams of land transfer duty and land tax, which totalled \$8.6 billion in 2016-17.
- In 2016-17, \$266.5 million was raised through the *Absentee Landowner Surcharge*, the *Land Transfer Duty Surcharge on Foreign Buyers of Residential Property* and the *State Revenue Office Land Tax Compliance Program*. The revenue raised through these initiatives was more than double the 2016-17 budget estimate.
- Payroll tax for 2016-17 was \$5.7 billion, marginally higher (\$18 million) than the original budget estimate and \$457 million (8.3 per cent) higher than the 2015-16 figure. This reflects employment growth and greater labour market participation.
- Revenue collected for motor vehicle taxes (\$2.4 billion), insurance taxes (\$1.2 billion) and the fire property services levy (\$676 million) in 2016-17 were all within two per cent of the original budget estimate. Revenue from gambling taxes was \$1.8 billion, \$113 million (5.9 per cent) under the original budget estimate and \$36 million (1.9 per cent) less than the previous year.
- South East Water Corporation was the largest single contributor towards public non-financial corporations dividends for 2016-17. The *2017-18 Budget Update* indicates will continue to pay the largest amount of dividends out of all the metropolitan water corporations over the forward estimates period. The Corporation has indicated to the Committee that there was no impact on the organisation as a result of the 2016-17 dividend payment.

3.1 Introduction

In 2016-17, the general government sector raised a total revenue of \$60.9 billion, an increase of \$4.2 billion or 7.4 per cent over the previous year. This was also 0.9 per cent above the 2016-17 budget estimate.⁹¹

There are significant factors that impact on the level of Government revenue. This includes the State's economic performance, which to a great extent influences how much money the Government collects from State-based taxes across different sources, including:

- land tax
- land transfer duty
- vehicle registration fees
- payroll tax.

In addition to State-based taxes, the money the Government uses to meet its operating expenses and asset investment program also comes from Commonwealth taxes and grants.

Figure 3.1 shows the sources of revenue for the general government sector in 2016-17.

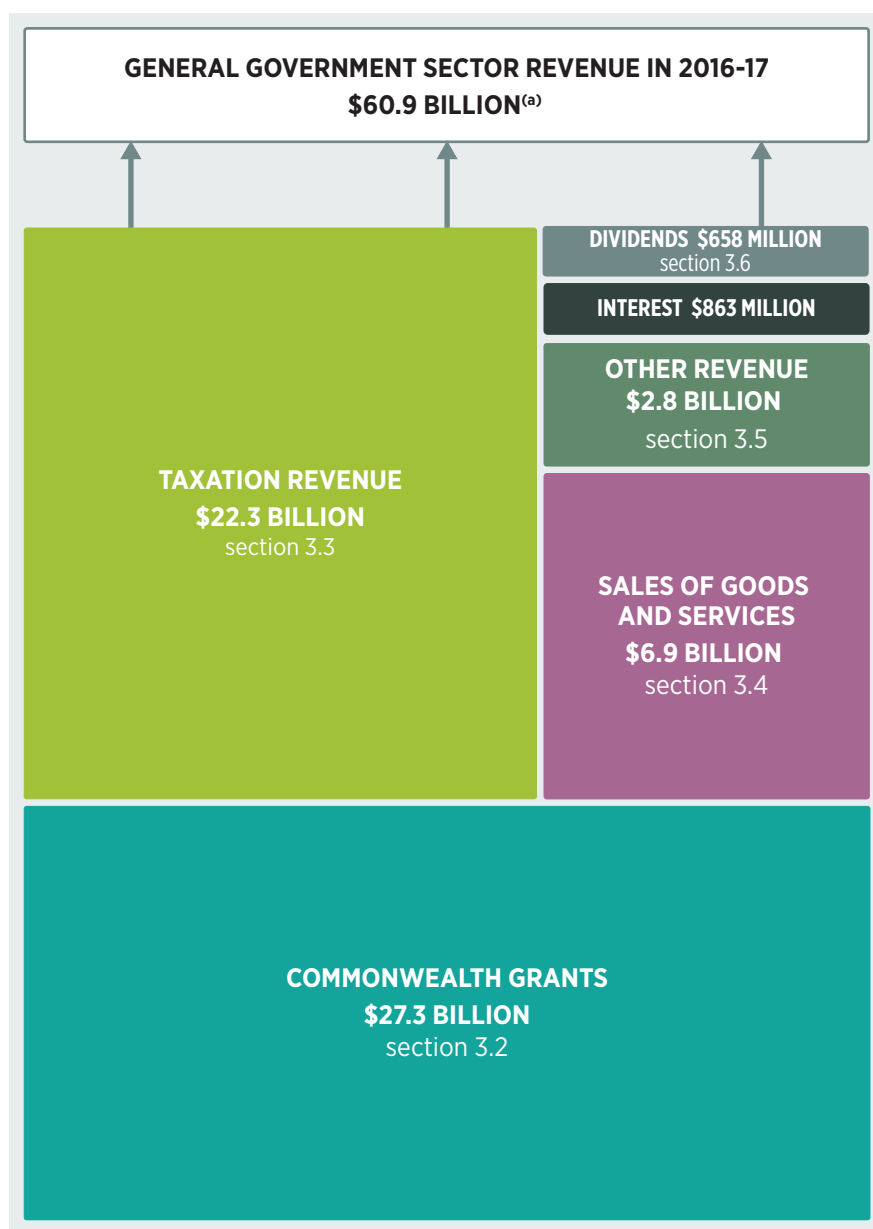
This chapter provides an analysis of the general government sector's revenue and discusses:

- the 2016-17 revenue outcomes against the previous year and the original budget estimates
- the impact of any economic or other factors on revenue levels collected in 2016-17.

FINDING 13: The general government sector's revenue was \$60.9 billion in 2016-17. This outcome is an increase of 7.4 per cent compared to 2015-16 and is 0.9 per cent higher than the amount anticipated in the 2016-17 Budget.

⁹¹ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.6; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.6

Figure 3.1 Sources of revenue, general government sector, 2016-17

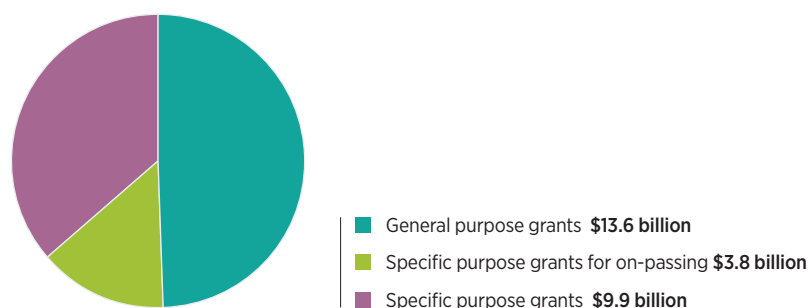


(a) Figures do not total \$60.9 billion due to rounding.

Source: Department of Treasury and Finance, *2016-17 Financial Report* (2017), pp.6, 39

3.2 Commonwealth grants revenue in 2016-17

In 2016-17, \$27.3 billion or 44.9 per cent of the Government's total revenue came from Commonwealth grants. The three types of grants the State receives from the Commonwealth grants together with the 2016-17 outcomes are shown in Figure 3.2.

Figure 3.2 Main components of Commonwealth grants revenue for 2016-17

Source: Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.39

General-purpose (goods and services tax) grants

General-purpose grants, or goods and services tax (GST) revenue collected by the Commonwealth on behalf of the State, made up the largest (49.4 per cent) component of Commonwealth grant revenue at \$13.6 billion.⁹² The 2016-17 figure was an increase of \$659 million or 5.1 per cent in comparison to 2015-16.⁹³ Although there was a year-on-year increase, the 2016-17 result was \$266 million or 1.9 per cent less than originally anticipated in the 2016-17 Budget.⁹⁴

The Department of Treasury and Finance stated that the GST amount received in 2016-17 was lower than the budget figure due to 'weaker-than-expected national consumption growth'.⁹⁵ The Department recently released a paper discussing broad developments in the GST revenue pool, examining trends since the GST tax was introduced in 2000.⁹⁶ The report found:

- items that attract a moderate or high GST liability (50 per cent or more) made up 60 per cent of the average 2016-17 household consumption (sometimes known as the 'basket of goods') including clothing and footwear, recreation and culture activities, household items such as furnishings and equipment and café and restaurant spending. Items that have either no or a small GST liability share such as education, health, rent and food comprise the remaining 40 per cent⁹⁷
- changing household expenditure patterns have seen greater growth in the consumption of non-GST liable items than GST liable items. The growth in spending on the non-GST liable items and services of education, health and rent has been particularly pronounced⁹⁸
- continuing soft wage growth may lead to a higher household savings rate and this may further constrain consumption of GST liable items and services. Growth in retail sales (which are highly GST liable) has been falling

⁹² Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.39

⁹³ *ibid.*

⁹⁴ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.27

⁹⁵ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.109

⁹⁶ C Andersen, D Harrison and S Khademaloom, *Developments in the GST Pool*, in Department of Treasury and Finance, *Victoria's Economic Bulletin, Volume 1* (2017), p.33

⁹⁷ *ibid.*, p.38

⁹⁸ *ibid.*, p.33

since 2014, and the sector has been under pressure recently with the arrival of international chains such as H and M, Zara and Uniqlo while a series of local retail brands such as David Lawrence, Marcs and Herringbone have ceased operations. In time it is also expected that the presence of online retailer Amazon in Australia will drive greater price competition across a range of products that are largely GST-liable, and this in turn may impact of levels of GST collected⁹⁹

- overall, GST is considered a relatively stable revenue source, particularly in comparison to the state based taxes of land transfer duty and land tax, which are subject to higher variations as they reflect the more cyclical property market.¹⁰⁰

FINDING 14: In 2016-17, \$27.3 billion or 44.9 per cent of the Government's total revenue came from Commonwealth grants. Most of this was Commonwealth general purpose grants, or goods and services tax revenue, which was \$13.6 billion in 2016-17.

Specific-purpose grants

The remaining two forms of grants from the Commonwealth are:

- specific purpose grants, which are subject to conditions regarding their use, such as the *National Health Reform Agreement*
- specific purpose grants for on-passing, which are grants received from the Commonwealth and paid to the local government sector.

These two revenue streams were \$9.9 billion and \$3.8 billion respectively in 2016-17.¹⁰¹

Specific purpose grants were \$702 million or 7.7 per cent higher than the previous year, and \$140 million, or 1.4 per cent greater than the original 2016-17 budget estimate.¹⁰² The Department of Health and Human Services indicated to the Committee that the grants it received in 2016-17 were \$680.7 million higher in comparison to the previous year mainly due to additional Commonwealth contributions as part of the *National Health Reform Agreement*.¹⁰³ The *National Health Reform Agreement* is an arrangement between the Commonwealth and the states and territories whereby the Commonwealth provides funding for State-based health services.¹⁰⁴ Higher health spending, including funding received through this agreement, contributed to the unbudgeted increases in output expenses discussed further in Chapters 2 and 5 of this report.

99 C Andersen, D Harrison and S Khademaloom, *Developments in the GST Pool*, in Department of Treasury and Finance, *Victoria's Economic Bulletin, Volume 1* (2017), pp.40, 43

100 *ibid.*

101 Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.39

102 *ibid.*; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.27

103 Department of Health and Human Services, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 6 November 2017, p.35

104 Council of Australian Governments (COAG), *National Health Reform Agreement* (2011)

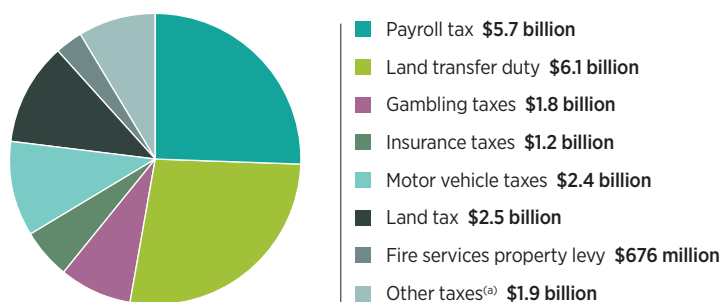
Specific purpose grants for on-passing were \$756 million or 24.4 per cent greater than the previous year and \$140 million or 1.4 per cent more than the original budget estimate. The higher grant revenue received was driven by the advance receipt of \$283 million, originally intended in 2017-18 for operations and roads.¹⁰⁵

FINDING 15: Specific purpose grants from the Commonwealth were \$9.9 billion in 2016-17, \$702 million (7.7 per cent) higher than the previous year, and \$140 million (1.4 per cent) greater than the original 2016-17 budget estimate. The increase was driven by larger payments made as part of the *National Health Reform Agreement*, where the Commonwealth contribute to State-based health services and funding.

3.3 State taxation

State taxation raised \$22.3 billion in 2016-17, an increase of \$2.4 billion or 11.9 per cent over the previous year.¹⁰⁶ This was also \$678.1 million or 3.1 per cent over the 2016-17 budget estimate.¹⁰⁷ Figure 3.3 shows most of the revenue came from taxes related to the property sector. Land transfer duty was worth \$6.1 billion in 2016-17 while land tax was worth \$2.5 billion.¹⁰⁸ Together these taxation streams accounted for 38.8 per cent of the State taxation total for 2016-17. Payroll tax earned \$5.7 billion in 2016-17.¹⁰⁹

Figure 3.3 Main components of State taxation revenue for 2016-17



(a) Other taxes includes: congestion levy, other property duties, growth areas infrastructure contribution, levies on statutory corporations, liquor licence fees, landfill levy, metropolitan improvement rate, metropolitan planning levy, financial accommodation levy, and transport fees including fees paid by Transurban in respect of Melbourne Citylink and allowance for prepaid port licence fees.

Source: Department of Treasury and Finance, *Taxation Revenue - Annual* (2017)

Impact of prepaid port licence fee

A major factor driving state taxation results for 2016-17 was also the prepaid port licence fees of \$738 million associated with the Port of Melbourne lease of operations.¹¹⁰ Figure 3.4 shows that while the inclusion of the port licence fee

¹⁰⁵ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.109

¹⁰⁶ *ibid.*, p.36

¹⁰⁷ *ibid.*, p.36; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.25

¹⁰⁸ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.36

¹⁰⁹ *ibid.*

¹¹⁰ *ibid.*, p.6

increased revenue received under 'other taxes' by \$859.8 million over the previous year, this amount was close to the original budget estimate (\$4.3 million variance or 0.2 per cent).

Figure 3.4 Variance from the 2016-17 budget estimate and growth over 2015-16 for various State taxes



Source: Department of Treasury and Finance, *Taxation Revenue - Annual (2017)*

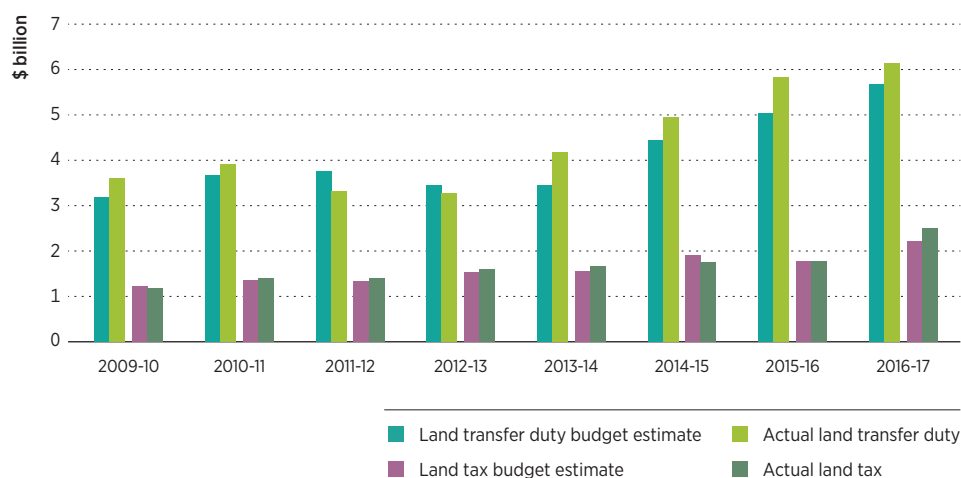
FINDING 16: The prepaid port license fees associated with the Port of Melbourne's lease of operations in 2016-17 was reported under 'other taxes' in the *2016-17 Financial Report*. As a result, 'other taxes' were \$1.9 billion in 2016-17, an increase of \$859.8 million over the previous year, but only a \$4.3 million variance (0.2 per cent) over the original budget estimate.

Housing sector performance and property-related taxes in 2016-17

Figure 3.4 shows the property-related taxes experienced the largest variance out of all the State based taxes, with land tax \$276 million (12.5 per cent) and land transfer duty \$457 million (8.0 per cent) more than the original budget estimate. Revenue for both taxes was also higher than the previous year, with land tax increasing by \$730 million (41.2 per cent) and land transfer duty by \$295 million (5.1 per cent).

Figure 3.5 shows the comparison between the original budget estimate and the actual revenue outcomes for the property taxes since 2009-10. It shows the difficulty in estimating the revenue amount from the property taxes, particularly for land transfer duty, due to the cyclical nature of the property sector. For example, Figure 3.5 shows a budget over-estimation when the property market last slowed down over 2011-12 and 2012-13.

Figure 3.5 Comparison between budget estimates and actual results for property taxes, 2009-10 to 2016-17



Source: Department of Treasury and Finance, *Taxation Revenue - Annual* (2017)

Land tax has historically not been subject to the same variations as land transfer duty but the variance between the 2016-17 budget estimate and actual result has also been attributed to current high property values.¹¹¹

The amount of revenue collected from land transfer duty is dependent on the volume of property sales, and property prices. In explaining the impact of the actual property market outcomes over 2016-17 on their forecasting assumptions, the Department of Treasury and Finance noted that the property prices growth rate for 2016-17 of 3.9 per cent was 0.9 per cent higher than originally expected.¹¹² The Department also indicated that property volumes grew by 1.1 per cent over the previous year, which was significantly different to the original departmental forecast of a 10.5 per cent decline.¹¹³ According to the Department, 'land transfer volumes were volatile and higher than expected in 2016-17 as price growth moderated'.¹¹⁴

The Department of Treasury and Finance has been anticipating the property sector to slow down at some stage over the last two years.¹¹⁵ A recent report by NAB Economics on future residential property market outcomes across the Australian capital cities found house price growth in Melbourne would moderate over the next two years, while unit prices would decline by 2019.¹¹⁶

¹¹¹ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.6

¹¹² Department of Treasury and Finance, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 13 November 2017, p.46

¹¹³ *ibid.*

¹¹⁴ *ibid.*

¹¹⁵ The 2016-17 Budget initially forecast land transfer duty to fall by 6.4 per cent to be \$5.7 billion for that year, predicting conditions in the property market would ease. Subsequent revisions for land transfer duty for 2016-17 in the 2017-18 Budget (released in April 2017) show the Government revised land transfer duty upwards, to \$6.0 billion. See Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.46 and Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.149

¹¹⁶ C Kohler, 'NSW and Victoria's property decline sees other states shine'. Available at <<https://www.domain.com.au/money-markets/nsw-and-victorias-property-decline-sees-other-states-shine-20180202-h0sdpf>>, viewed 2 February 2018

FINDING 17: The strong property sector has driven increases in the property-related revenue streams of land transfer duty and land tax, which totalled \$8.6 billion in 2016-17.

Impact of property tax revenue initiatives relating to foreign investment

In recent reports the Committee has commented on the increase and impact of foreign investment in the local property market, particularly in relation to residential properties based in Melbourne.¹¹⁷

In the 2015-16 Budget the Government introduced two revenue measures aimed at creating greater housing supply for local residents. They were the *Absentee Landowner Surcharge*¹¹⁸ and the *Land Transfer Duty Surcharge on Foreign Buyers of Residential Property*.¹¹⁹ Another revenue initiative, the *State Revenue Office Land Tax Compliance Program* was announced in the 2016-17 Budget, funding greater compliance programs and investigations into the eligibility of taxpayers for certain land tax exemptions.¹²⁰

In 2016-17 the combined total of revenue from these initiatives was \$266.5 million, more than doubling (111.5 per cent) the original 2016-17 budget estimate of \$126.1 million.¹²¹

The State Revenue Office reported there were 3,017 absentee owners in 2016-17, attracting \$72.9 million in revenue through the *Absentee Landowner Surcharge*.¹²² This was ‘...higher than expected reflecting growth in the number of absentee landowners and underlying land values’.¹²³ There were 3,942 transfers attracting the *Land Transfer Duty Surcharge on Foreign Buyers of Residential Property* and the \$134.0 million raised in 2016-17 ‘was broadly in line with expectations’.¹²⁴

FINDING 18: In 2016-17, \$266.5 million was raised through the *Absentee Landowner Surcharge*, the *Land Transfer Duty Surcharge on Foreign Buyers of Residential Property* and the *State Revenue Office Land Tax Compliance Program*. The revenue raised through these initiatives was more than double the 2016-17 budget estimate.

117 Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017) pp.104-6; Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), pp.68-70

118 This was an additional levy charged on properties where the landowner does not ordinarily reside in Australia. The surcharge was increased in the 2016-17 Budget from 0.5 per cent to 1.5 per cent.

119 This is an additional land transfer duty surcharge calculated on properties bought by foreign buyers. This surcharge was also increased in the 2016-17 Budget, from 3 per cent to 7 per cent.

120 Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.117

121 Department of Treasury and Finance, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 13 November 2017, pp.23-4; Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.117

122 State Revenue Office, *2016-17 Annual Review*; Department of Treasury and Finance, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 13 November 2017, p.22

123 Department of Treasury and Finance, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 13 November 2017, p.23

124 State Revenue Office, *2016-17 Annual Review*; Department of Treasury and Finance, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 13 November 2017, pp.23-4

Payroll tax

After land transfer duty, the second largest state-based revenue stream was payroll tax, earning \$5.7 billion in 2016-17. While this was marginally higher (\$18 million) than the original budget estimate, it was \$457 million or 8.3 per cent higher than the 2015-16 figure. The increase reflects favourable labour market conditions over 2016-17. The Department of Treasury and Finance explained to the Committee that the employment growth over 2016-17 of 3.75 per cent was higher than the initial budget estimation of 1.75 per cent and ‘largely reflects stronger economic activity than originally forecast, which has boosted demand for labour. This has been met by increased labour supply with the participation rate increasing over the course of the year’.¹²⁵

Payroll tax is calculated on the amount of an employer’s payroll, so the amount collected will be influenced by both the numbers of people employed and their total wages costs. The Department of Treasury and Finance indicated that wage growth over 2016-17 continued to be weak, as the wage price index growth of 2.03 per cent was lower than the expected 2.75 per cent. The Department explained this ‘reflects a confluence of factors, including a soft inflation environment, higher labour supply and spare capacity, and lower than forecast labour productivity’.¹²⁶

FINDING 19: Payroll tax for 2016-17 was \$5.7 billion, marginally higher (\$18 million) than the original budget estimate and \$457 million (8.3 per cent) higher than the 2015-16 figure. This reflects employment growth and greater labour market participation.

The performance of other state-based taxes in 2016-17

In terms of the outcomes for other forms of state-based taxes in 2016-17:

- motor vehicle taxes were worth \$2.4 billion, slightly above (\$36.7 million or 1.6 per cent) the original budget estimate, and \$136 million or 6.1 per cent more than the figure for 2015-16¹²⁷
- insurance taxes were \$1.2 billion, slightly under the original budget estimate and \$66.2 million or 5.8 per cent greater than the previous year¹²⁸
- revenue from gambling taxes continues to decline, worth \$1.8 billion, \$113 million or 5.9 per cent under the original budget estimate and \$36 million or 1.9 per cent less than the previous year¹²⁹
- the fire property services levy \$676 million in 2016-17, slightly higher than the budget estimate as well as the previous year.¹³⁰

¹²⁵ Department of Treasury and Finance, *Response to the Committee’s 2016-17 Financial and Performance Outcomes General Questionnaire*, received 13 November 2017, p.45

¹²⁶ *ibid.*

¹²⁷ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.6; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.25

¹²⁸ *ibid.*

¹²⁹ *ibid.*

¹³⁰ Department of Treasury and Finance, *Taxation Revenue - Annual* (2017)

Overall, with the exception of the two property based taxes and gambling revenue, the 2016-17 results indicate the original budget estimates for state-based revenue streams were within two per cent of the actual results.

FINDING 20: In 2016-17 the revenue collected for motor vehicle taxes (\$2.4 billion), insurance taxes (\$1.2 billion) and the fire property services levy (\$676 million) were all within two per cent of the original budget estimate. Revenue from gambling taxes was \$1.8 billion, \$113 million (5.9 per cent) under the original 2016-17 budget estimate and \$36 million (1.9 per cent) less than the previous year.

3.4 Sales of goods and services

Sales of goods and services were \$6.9 billion, increasing by \$268 million (4 per cent) in comparison to the previous year and \$95 million or 1.4 per cent over the initial budget estimate.¹³¹ In 2016-17, sales of goods and services was comprised of:

- provision of services (\$4.0 billion)
- inter-sector capital asset charge (\$1.9 billion)
- other regulatory fees (\$588 million)
- motor vehicle regulatory fees (\$230 million)
- rental (\$72 million)
- sale of goods (\$99 million)
- refunds and reimbursements (\$58 million).¹³²

The Department of Treasury and Finance explained that revenue from sales of goods and services exceeded the budget estimate largely due to higher than expected land title fee revenue, but this was partially offset by a reduction in TAFE revenue due to lower-than-expected enrolments.¹³³

The Department of Environment, Land, Water and Planning further explained to the Committee that sales of goods and services for the Department was \$536 million in 2016-17 (\$59 million over the original budget estimate) due to an 'increase in Land Title Office Registration and Property Enquiry Service Fees as a result of increased activities in the property market'.¹³⁴ The Committee notes the most recent (2017-18) budget papers indicate the Department of Treasury and Finance will 'examine options to commercialise Victoria's land titles registry function'.¹³⁵

¹³¹ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.6; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.6

¹³² Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.38

¹³³ *ibid.*, p.109

¹³⁴ Department of Environment, Land, Water and Planning, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.23

¹³⁵ Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.106

The Department of Education and Training indicated the size of the reduction in revenue from TAFE fees and charges was \$44 million compared to the previous year.¹³⁶ In response to this fall in revenue the Department informed the Committee:

TAFE Institutes are addressing the shortfall in TAFE Fee revenue by actively promoting the service they offer in terms of quality education to learners and employers.¹³⁷

The inter-sector capital asset charge is a levy imposed by the Government on the value of non-current physical entities and is intended to encourage the disposal of assets that are not in active use. In 2016-17 it increased by \$171 million or 9.1 per cent over the previous year to be \$1.9 billion, due to the increased asset holdings of the Victorian Rail Track.¹³⁸

FINDING 21: Sales of goods and services were \$6.9 billion in 2016-17, increasing by \$268 million (4 per cent) in comparison to the previous year and \$95 million (1.4 per cent) over the initial budget estimate. Within this category most revenue came from the provision of services (\$4.0 billion) and the inter-sector capital asset charge (\$1.9 billion).

3.5 Other revenue

Other revenue includes:

- fines
- royalties
- donations and gifts
- non-property rental income
- forms of other revenue raised mostly from the education and health sectors
- fair value of assets received free of charge or for nominal consideration.

Other revenue amounted to \$2.6 billion in 2016-17, a decrease of \$463 million against the previous year.¹³⁹ This was due to a fall in the 'other miscellaneous revenue' category from \$1.2 billion in 2015-16 to \$591 million in 2016-17 which was:

... mainly attributable to the one-off revenue from the High Court of Australia's decision to overturn the Court of Appeal's previous decision relating to Tatts Group Limited (Tatts) 'Gambling Licences' proceedings, which resulted in additional revenue [\$540 million] plus interest recorded for the 2015-16 financial year.¹⁴⁰

¹³⁶ Department of Education and Training, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.34

¹³⁷ *ibid.*, p.35

¹³⁸ Department of Treasury and Finance, *2016-17 Financial Report (2017)*, pp.6-7

¹³⁹ *ibid.*, p.6

¹⁴⁰ *ibid.*, pp.7, 40

In terms of the other revenue sources:

- revenue from fines for 2016-17 was \$730 million, \$46 million or 5.9 per cent less than both the previous year and the original budget estimate¹⁴¹
- the value of assets received free of charge or for nominal consideration was \$246 million, \$44 million or 15.2 per cent than the original budget estimate, largely reflecting ‘a lower than previously estimated value of the State’s receipt of Simmonds Stadium [Geelong]’¹⁴²
- education related ‘other revenue’ increased by \$50 million or 9 per cent from 2015-16 to be \$603 million in 2016-17.¹⁴³ The increase partly reflects a \$63 million reclassification of fees and charges that was previously counted under sales of goods and services.¹⁴⁴ The Department of Education and Training also noted a \$71 million increase in revenue from the International Student Division in 2016-17, but the total revenue from international students has not been disclosed.¹⁴⁵

FINDING 22: Other revenue was \$2.6 billion in 2016-17, a decrease of \$463 million from the previous year, mainly due to the one off \$540 million plus interest in additional revenue the State recorded in 2015-16 as a result of the High Court’s decision in the Tatts Group Limited (Tatts) ‘Gambling Licences’ proceedings.

3.6 Dividends and similar revenue

Dividends and similar revenue were \$658 million in 2016-17, a decrease of \$190 million from the previous year.¹⁴⁶ Although dividends from both the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors remained almost at the same level over 2015-16 and 2016-17,¹⁴⁷ it was the ‘income tax equivalent revenue from the PNFC sector’ category which accounted for the overall year-on-year fall in dividends and similar revenue, decreasing by \$179 million.¹⁴⁸

¹⁴¹ *ibid.*, p.40; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.27

¹⁴² Department of Treasury and Finance, *2016-17 Financial Report* (2016), p.40, 109; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.27

¹⁴³ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.40

¹⁴⁴ Department of Education and Training, *Response to the Committee’s 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.34

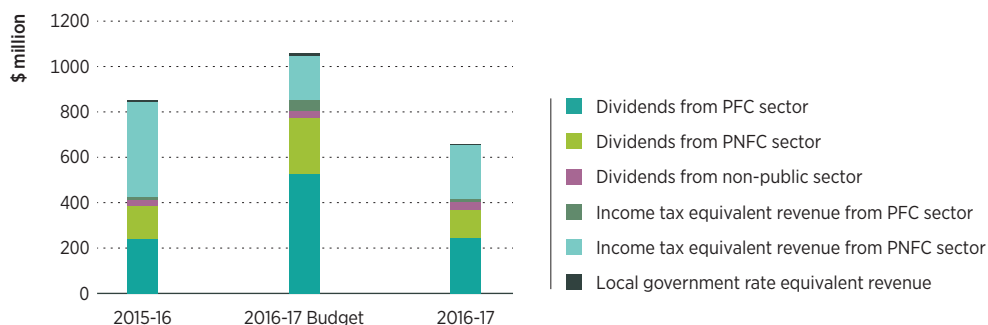
¹⁴⁵ *ibid.*, p.34

¹⁴⁶ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.109

¹⁴⁷ That is, dividends for both sectors were \$388 million in 2015-16 and \$369 million in 2016-17. (Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.37)

¹⁴⁸ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.37

Figure 3.6 Dividends and similar income, 2015-16, 2016-17 and the 2016-17 budget estimate



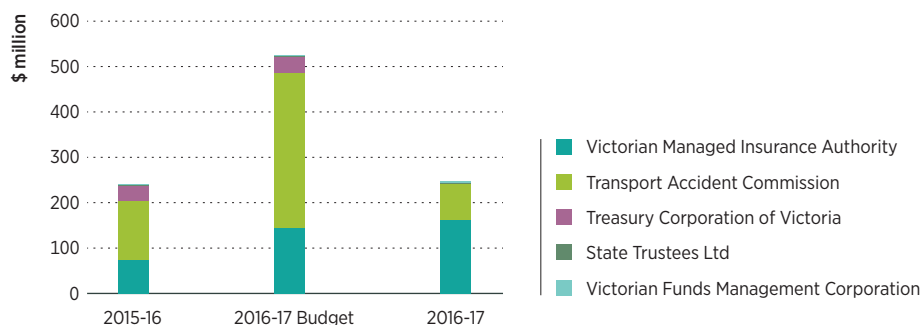
Sources: Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.37; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.26

Figure 3.6 shows the Government originally expected \$1.1 billion in dividends and similar revenue for 2016-17, \$400 million or 37.8 per cent more than the actual result. This difference was driven by lower dividends from the PFC and PNFC sectors.

FINDING 23: Dividends and similar revenue was \$658 million in 2016-17, a decrease of \$190 million from the previous year and \$400 million or 37.8 per cent less than the original budget estimate.

Dividends from the public financial corporations sector in 2016-17

Figure 3.7 Public financial corporations sector entity dividends, 2015-16, 2016-17 and the 2016-17 budget estimate



Sources: Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.38; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.26

Figure 3.7 shows that while there was little change in total PFC dividends between 2015-16 and 2016-17, the Government originally anticipated \$526 million for 2016-17, more than double (\$280 million or 113.8 percent) the actual \$246 million result. At the time of the 2016-17 Budget the Government expected to receive \$342 million in dividends from the Transport Accident Commission (TAC), however the actual result was considerably less, with only \$80 million coming from the entity.¹⁴⁹

149 *ibid.*, p.38; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.26

In its last inquiry, the Committee noted the revisions made to dividends expected from the TAC for 2017-18 and the forward estimates period.¹⁵⁰ The Committee learned that the Department of Treasury and Finance is unable to classify payments made by TAC to the State as dividends due to accumulated losses on their balance sheet.¹⁵¹ While the TAC has enough cash to make payments, to classify these payments as dividends is counter to the current Australian Accountancy Standards Board's (AASB) Standard 1023. As a result, payments made by the TAC are to be recorded under the 'grants' line item in the budget papers and Annual Financial Report.¹⁵²

In terms of dividends from other PFC entities, the Victorian Managed Insurance Authority comprised the bulk (66 per cent) of dividends from the sector, with \$162 million recorded for the year, an increase over both the previous year (\$73 million) and the original budget estimate (\$145 million).¹⁵³ Although the amount of dividends originally expected from the Treasury Corporation of Victoria for 2016-17 of \$35 million was in line with the level received the previous year (\$32 million), there were no dividends paid by the entity in 2016-17.¹⁵⁴ TCV explained to the Committee:

TCV generally pay 100% of the previous year's net profit as a dividend to DTF. This is subject to capital adequacy requirements. In 2016-17 there were additional capital needs relating to the Port of Melbourne Corporation (PoMC) transactions hence no dividend paid from 2015-16 net profit.¹⁵⁵

FINDING 24: The \$246 million in dividends from the public financial corporations sector for 2016-17 was similar to the 2015-16 amount (\$239 million), however the original budget estimate was \$526 million, more than double (113.8 per cent) the actual result. Dividends from the Victorian Managed Insurance Agency comprised the bulk (66 per cent) of dividends from the sector.

¹⁵⁰ Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017) pp.65-7

¹⁵¹ *ibid.*, p.66

¹⁵² *ibid.*

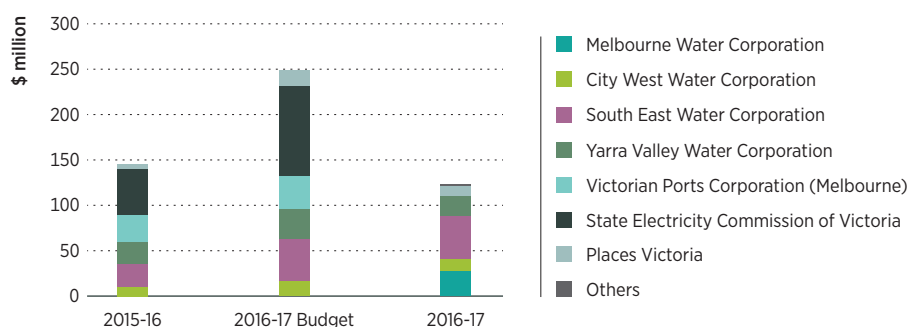
¹⁵³ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.38; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.26

¹⁵⁴ *ibid.*

¹⁵⁵ Treasury Corporation of Victoria, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 27 October 2017, p.11

Dividends from the public non-financial corporations sector for 2016-17

Figure 3.8 Public non-financial corporations sector entity dividends, 2015-16, 2016-17 Budget



Sources: Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.38; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.26

Overall dividends from the PNFC sector were \$123 million in 2016-17, \$26 million or 17.4 per cent less than the previous year, and \$127 million or 50.8 per cent less than the original budget estimate.¹⁵⁶ The lower result for PNFC dividends in 2016-17 was largely due to \$100 million in dividends originally budgeted from the State Electricity Commission of Victoria not being collected. Similarly, the anticipated dividends in the original 2016-17 Budget of \$36 million from the Victorian Ports Corporation (Melbourne) did not eventuate.

The four metropolitan water corporations contributed 90.2 per cent of the total dividends from PNFC entities in 2016-17.¹⁵⁷ The \$28 million dividend from Melbourne Water was not originally planned in the 2016-17 Budget, however the organisation informed the Committee that the impact of the payment was 'off-set by additional cash flow from profits'.¹⁵⁸

Yarra Valley Water Corporation noted to the Committee there would be an impact on the agency's borrowings as a result of the dividend payment,¹⁵⁹ while City West Water reported impacts on the agency's borrowings and cash levels.¹⁶⁰

South East Water Corporation was the largest single contributor to PNFC dividends for 2016-17, with a \$47 million payment for the year which was in line with the original budget estimate. South East Water Corporation reported that there were 'no impacts' on the agency as a result of this payment.¹⁶¹ In addition to the 2016-17 dividend, the *2017-18 Budget Update* indicates South East Water Corporation will continue to pay the largest amount of dividends out of all

¹⁵⁶ *ibid.*

¹⁵⁷ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.38

¹⁵⁸ Melbourne Water Corporation, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.10

¹⁵⁹ Yarra Valley Water Corporation, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.11

¹⁶⁰ City West Water Corporation, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.10

¹⁶¹ South East Water Corporation, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.10

the metropolitan water corporations over the forward estimates period.¹⁶² It is difficult to conceive that there can be no impact on the Corporation as a result of these dividend payments.

FINDING 25: Dividends from the public non-financial corporations sector were \$123 million in 2016-17, \$26 million (17.4 per cent) less than the previous year and \$127 million (50.8 per cent) less than the original budget estimate. The lower result was largely due to \$100 million in dividends originally budgeted from the State Electricity Commission of Victoria not being collected. The four metropolitan water corporations made up 90.2 per cent of the dividends from the sector 2016-17.

FINDING 26: South East Water Corporation was the largest single contributor towards public non-financial corporations dividends for 2016-17 and the *2017-18 Budget Update* indicates will continue to pay the largest amount of dividends out of all the metropolitan water corporations over the forward estimates period. The Corporation has indicated to the Committee that there was no impact on the organisation as a result of the 2016-17 dividend payment.

¹⁶² 40 per cent in 2017-18 and 2018-19, rising to 64.1 per cent in 2019-20 and 58.7 per cent in 2020-21. Department of Treasury and Finance, *2017-18 Budget Update* (2017), p.48

4 Net debt

Key findings

- Net debt for the general government sector was \$15.8 billion at June 2017, a decrease of \$6.5 billion (29.3 per cent) from the previous year and \$2.8 billion (15.3 per cent) lower than the original budget forecast.
- Net debt for the public non-financial corporations sector at June 2017 was \$14.1 billion, slightly less than the previous year and \$1.6 billion (10.3 per cent) less than the original budget estimate.
- Funds provided by the Port of Melbourne lease transaction have caused a decrease in both borrowings and net debt for the general government sector between June 2016 and June 2017.
- Although general government sector net debt at June 2017 was the lowest since June 2012, it is expected to increase rapidly over the forward estimates period, to pay for the Government's accelerated infrastructure program.
- Net debt as a percentage of gross state product was 4.0 per cent at June 2017. This is the lowest level for this indicator since 2011. However, this is expected to increase to 5.7 per cent by June 2021.
- Departments have reported to the Committee that commissioned public private partnership projects over 2016-17 have contributed \$1.1 billion to general government sector net debt, and the figure is expected to be similar (\$1.0 billion) for 2017-18. The *High Capacity Metro Trains* project is expected to contribute to net debt beyond 2020-21.
- The present value of the unfunded superannuation liability for the general government sector decreased by \$4.4 billion between 2016 and 2017 to \$24.9 billion. This reduction is primarily explained by higher bond yields, and is the lowest unfunded superannuation liability since 2012.

4.1 Introduction

This chapter examines the outcomes at June 2017 for net debt across the general government and public non-financial corporations (PNFC) sectors.

The chapter discusses:

- the outcomes for borrowing and net debt at June 2017 for the two sectors, including the impact of the Port of Melbourne lease transaction
- the level of net debt in relation to the Victorian economy, as measured by gross state product (GSP)

- the impact of current public private partnership (PPP) projects on net debt outcomes in the coming years
- the status of the unfunded superannuation liability at June 2017.

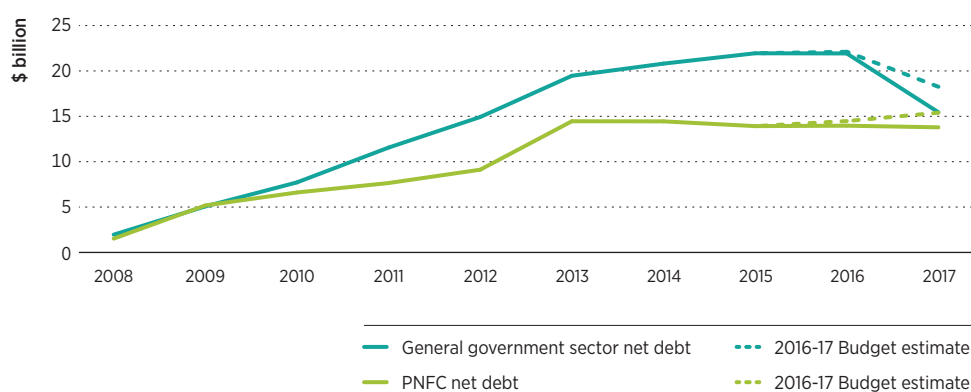
4.2 Net debt outcomes

Net debt for the general government sector was \$15.8 billion at June 2017, a decrease of \$6.5 billion (29.3 per cent) from the previous year and \$2.8 billion (15.3 per cent) lower than had been originally forecast in the 2016-17 budget papers.¹⁶³

The Department of Treasury and Finance explained that the year-on-year decrease of net debt at June 2017 mainly reflects ‘the positive outcome from the Port of Melbourne lease transaction in 2016-17’.¹⁶⁴

In terms of the PNFC sector, net debt was \$14.1 billion as at June 2017, a small (\$180 million or 1.3 per cent) decrease on the previous year’s figure and \$1.6 billion (10.3 per cent) less than the original budget estimate.¹⁶⁵

Figure 4.1 General government sector and public non-financial sector net debt outcomes 2008 to 2017^(a)



(a) Balances at 30 June each year.

Source: Department of Treasury and Finance, *Financial Report*, 2007-08 to 2016-17

FINDING 27: Net debt for the general government sector was \$15.8 billion at June 2017, a decrease of \$6.5 billion (29.3 per cent) from the previous year and \$2.8 billion (15.3 per cent) lower than the original budget forecast, mainly due to the outcome of the Port of Melbourne lease transaction.

¹⁶³ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.31; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.9

¹⁶⁴ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.3

¹⁶⁵ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.45; Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.132

FINDING 28: Net debt for the public non-financial corporations sector at June 2017 was \$14.1 billion, slightly less than the previous year and \$1.6 billion (10.3 per cent) less than the original budget estimate.

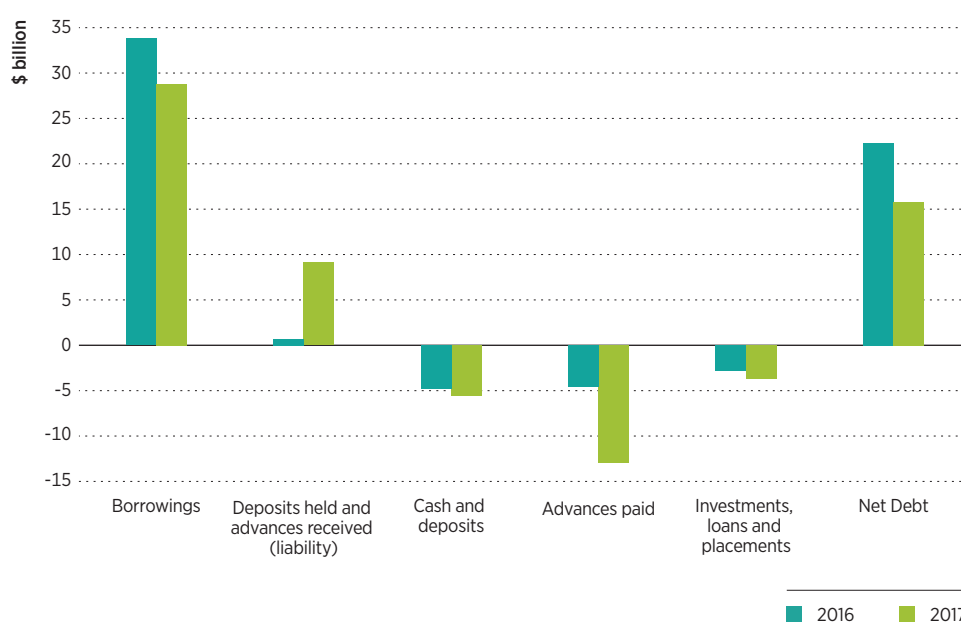
4.3 Impact of the Port of Melbourne lease transaction on net debt outcomes in 2017

The Committee notes that the composition of net debt for both the general government and PNFC sectors at June 2017 is significantly different from the previous year. This is due to the financial treatment of the Port of Melbourne lease transaction.

Net debt is calculated by combining the amount of borrowings with deposits held and advances received, and then subtracting the amount of cash and deposits, advances paid and investments, loans and placements.

Figure 4.2 compares the results of these items for June 2017 to the previous year for the general government sector.

Figure 4.2 Components of net debt, general government sector, 2016 and 2017^(a)



(a) Balances at 30 June each year.

Source: Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.132

The figure shows that:

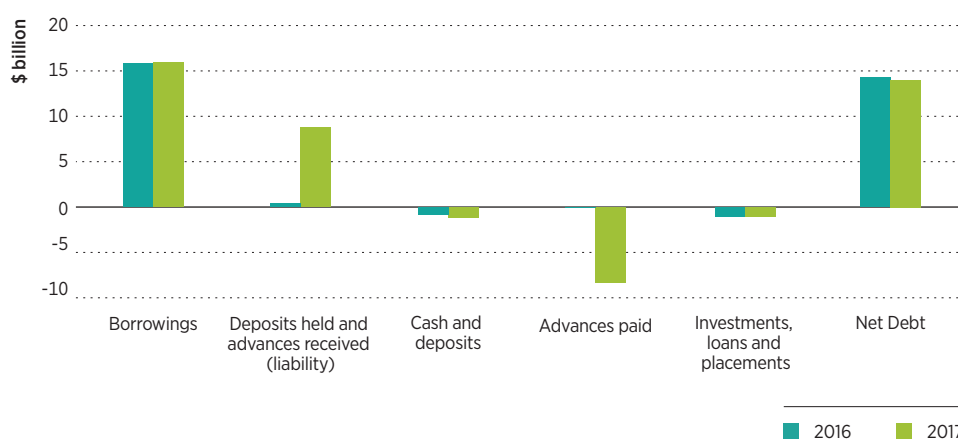
- *borrowings* decreased by \$5.0 billion as some of the upfront cash received from the Lonsdale Consortium for the lease to operate the Port of Melbourne was used to retire debt
- *deposits held and advances received* increased by \$8.4 billion with the general government sector recognising a liability to the Melbourne Port Lessor for the cash it received. This will be paid back to the Melbourne Port Lessor over time

- *cash and deposits* increased by \$760 million with some of the cash advance from the Melbourne Port Lessor placed in deposits at call
- *advances paid* increased by \$8.6 billion with the cash advance from the Melbourne Port Lessor to the general government sector.

Funds provided by the Port of Melbourne lease transaction have caused a decrease in both borrowings and net debt for the general government sector between June 2016 and June 2017.

The impact of the Port of Melbourne lease transaction on the composition of net debt for the PNFC sector is illustrated in Figure 4.3.

Figure 4.3 Components of net debt, public non-financial corporations sector, 2016 and 2017^(a)



(a) Balances at 30 June each year.

Source: Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.132

For the PNFC sector:

- *deposits held and advances received* increased by \$8.4 billion with the Melbourne Port Lessor recognising a liability to the Victorian Transport Fund (VTF)
- *advances paid* increased by \$8.3 billion with the cash advance from the VTF.

As the Victorian Transport Fund (VTF) requires funds for asset investment, the two advance components will decrease. Should the Government require additional funds to repay Melbourne Port Lessor Pty Ltd, these may be sourced from borrowings.

In its *Report on the 2016-17 Budget Estimates*, the Committee noted the complex financial reporting arrangement the Department of Treasury and Finance planned for the Port of Melbourne lease transaction, and recommended:

Once the long-term lease of the Port of Melbourne has been entered into, the Government provide the Parliament with more detailed information about the structure of the transaction and the allocation of the proceeds.¹⁶⁶

¹⁶⁶ Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), Recommendation 22, p.169

While the recommendation received in-principle support, the Government response noted:

This information has already been provided through various other means including the Budget Papers and the Department of Treasury and Finance website.¹⁶⁷

The Committee notes the reporting of the Port of Melbourne lease transaction in the *2016-17 Financial Report* has not been explicitly explained, and is difficult for members of Parliament and community who do not have a background in accountancy to readily understand.

4.4 Net debt outcomes for the general government sector

While the net debt outcome for the general government sector in 2017 was the lowest since 2012, the Government has indicated it intends to increase the level of net debt in the coming years in order to fund its infrastructure program. In the 2017-18 Budget, the Government stated that while an acceleration of its capital program would increase net debt, this also ‘accelerates the ability to invest in productivity-enhancing new infrastructure’.¹⁶⁸

The list of capital projects that the Government has ‘accelerated’ in the 2017-18 Budget includes the *Regional Rail Revival* asset investment program and have a combined expenditure of \$1.1 billion.¹⁶⁹ The budget papers specify that ‘these projects will be funded from the proceeds of the lease of the Port of Melbourne (Victorian Transport Fund). Draw down from the Victorian Transport Fund increases net debt’.¹⁷⁰

The Secretary of the Department of Treasury and Finance updated the Committee on the funding arrangements for the *Regional Rail Revival* asset investment program at the public hearings:

... since the publication of the 17–18 budget the Government has finalised arrangements with the Commonwealth with respect to the old asset recycling money that we have spoken about, I think, in previous hearings. The Commonwealth Government has agreed to provide the state of Victoria with 1.420 [billion dollars] tied into a range of regional projects. So that reconciliation table was relevant at the time of the 17–18 budget, published in May. It was the development since then of the former asset recycling money, some of which has been reallocated to regional rail, and then in the upcoming budget to be released on 1 May this year there will be a new reconciliation put into the budget papers by the government in terms of meeting its previously stated commitments.¹⁷¹

¹⁶⁷ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee’s Report on the 2016-17 Budget Estimates*, tabled 24 May 2017, p.9

¹⁶⁸ Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.9

¹⁶⁹ The projects are the *Regional Rail Revival – Gippsland Rail Upgrade; Major Periodic Maintenance on the Regional Rail Network; More Regional Trains; Shepparton Line Upgrade and Additional Services and Sustaining the V/Line Train Fleet*. (Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.9)

¹⁷⁰ Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.9

¹⁷¹ Mr David Martine, Secretary, Department of Treasury and Finance, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 12 February 2018, p.9

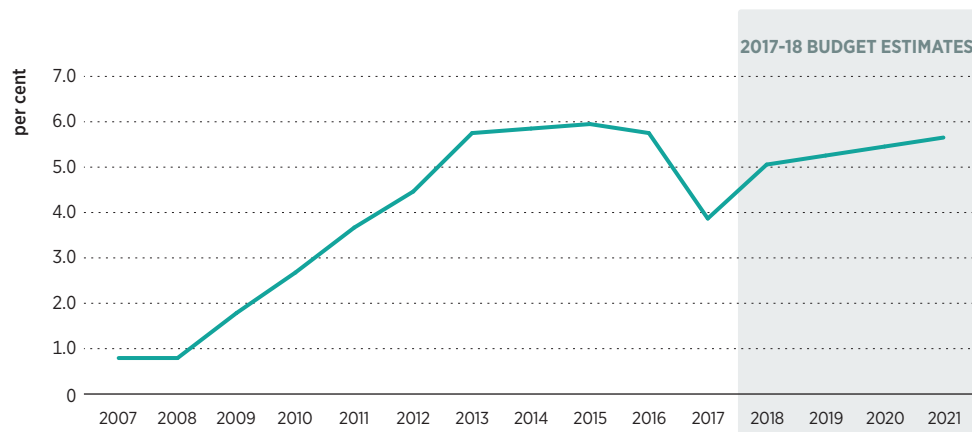
According to the *2017-18 Budget Update* released in December 2017, net debt for the general government sector is expected to rise rapidly from an expected \$21.6 billion by June 2018 to \$28.2 billion at the end of the current forward estimate period at June 2021.¹⁷²

FINDING 29: Although general government sector net debt at June 2017 was the lowest since June 2012, it is expected to increase rapidly over the forward estimates period to pay for the Government's accelerated infrastructure program.

Net debt to GSP outcomes

One of the Government's fiscal objectives is to maintain general government sector net debt at a 'sustainable level over the medium term'.¹⁷³ Figure 4.4 shows the June 2017 result of 4.0 per cent of GSP reflects the lowest level of net debt since 2011, a result of the decrease of net debt during 2016-17. The latest estimate from the *2017-18 Budget Update* for June 2018 was 5.1 per cent, increasing over the forward estimate to 5.7 per cent by 2020-21.¹⁷⁴

Figure 4.4 Net debt as a proportion of gross state product (GSP), 2007 to 2021^(a)



(a) Balances at 30 June each year

Sources: Committee calculations based on Department of Treasury and Finance, *Macroeconomic Indicators* (2017); Department of Treasury and Finance, *Consolidated Balance Sheet* (2017)

Net debt as a percentage of gross state product was 4.0 per cent at June 2017. This is the lowest level for this indicator since 2011. However, this is expected to increase to 5.7 per cent by June 2021.

¹⁷² Department of Treasury and Finance, *2017-18 Budget Update* (2017), p.14

¹⁷³ Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.14

¹⁷⁴ Department of Treasury and Finance, *2017-18 Budget Update* (2017), p.14

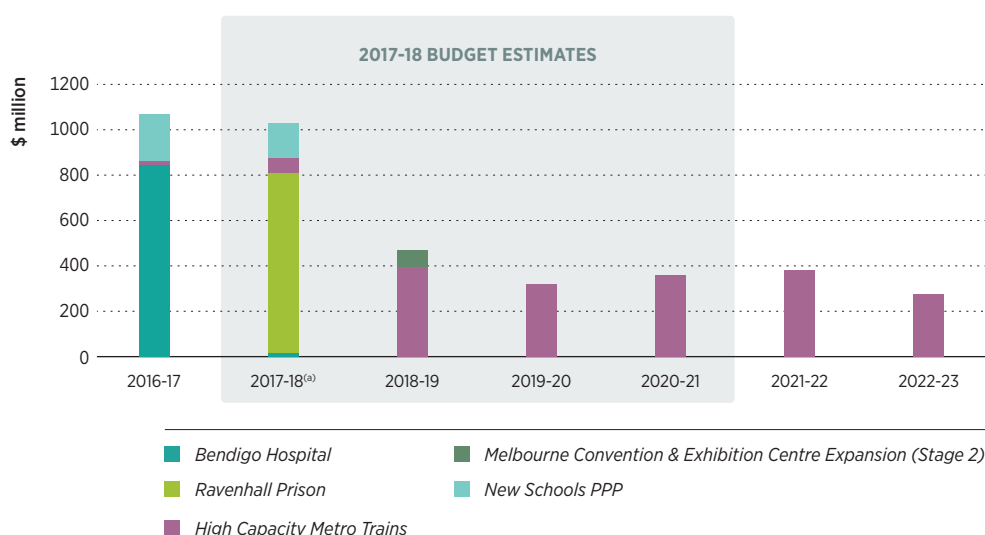
4.5 Impact of public private partnership projects on net debt

Unlike other types of investment, the effects of a PPP project on the State's net debt are realised at the project's commissioning (that is, the completion of construction) rather than in each year of the construction phase.

For large projects that take many years to construct, the effect on estimates of future net debt can be pronounced. The Committee has also previously noted that the future impact of PPP project debt is calculated beyond the forward estimates period and therefore not set out in the budget papers. In its most recent report, the Committee recommended that estimated net debt effects that are beyond the forward estimates period should be discussed in the budget papers.¹⁷⁵

As part of this inquiry the Committee asked departments to advise the effect on net debt of current PPP projects when they reach the commissioning stage. The responses are set out in Figure 4.5.

Figure 4.5 Expected addition of current PPP projects to net debt upon commissioning



(a) The *CityLink - Tulla Widening - Section 3* project valued at \$1.3 billion is also due to be commissioned over 2017-18 however there are no anticipated net debts effects of this project.

Source: Department of Treasury and Finance, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 13 November 2017, pp.13-14

The departmental responses show:

- the three PPP projects that were commissioned in 2016-17 contributed \$1.1 billion to general government sector net debt for the year. The project contributing the most to the figure was the *Bendigo Hospital* development, adding \$845 million to the net debt figure

¹⁷⁵ Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), Recommendation 8, p.130

- the overall estimated figure for commissioned PPP projects contribution to net debt in 2017-18 is \$1.0 billion, with the *Ravenhall Prison* project accounting for most (\$792 million) of that year's contribution
- the *High Capacity Metro Trains* project is expected to contribute to net debt beyond the end of the current (2017-18) financial year forward estimates period of 2020-21.¹⁷⁶

FINDING 30: Departments have reported to the Committee that commissioned public private partnership projects over 2016-17 have contributed \$1.1 billion to general government sector net debt, and the figure is expected to be similar (\$1.0 billion) for 2017-18. The *High Capacity Metro Trains* project is expected to contribute to net debt beyond 2020-21.

4.6 Superannuation liability

In addition to maintaining general government sector net debt at a sustainable level over the medium term, another fiscal objective of the Government is to 'fully fund the unfunded superannuation liability by 2035'.¹⁷⁷ The unfunded superannuation liability refers to the defined benefit superannuation schemes that pay retirees a fixed income which is indexed into the future.¹⁷⁸ The future unfunded costs of the defined benefit superannuation scheme are recognised by the Government as a liability, but do not form part of the Government's net debt.

In 2016-17 the superannuation liability decreased by \$4.4 billion over the previous year to be \$24.9 billion.¹⁷⁹ Figure 4.6 shows the 2017 result was the lowest since 2012. According to the *2016-17 Financial Report*, this reduction is due to 'increased bond yields'.¹⁸⁰ The higher bond rates were also responsible for the positive net result the PFC sector recorded in 2016-17, discussed in Chapter 2.

Superannuation liabilities were 32.6 per cent of the Government's total liabilities (\$76.5 billion) and the lowest proportion over the last ten years. Figure 4.6 shows the unfunded superannuation liability and the unfunded superannuation liability as a proportion of the Government's total liabilities from 2008 to 2017.

¹⁷⁶ Department of Treasury and Finance, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 13 November 2017, pp.13-14

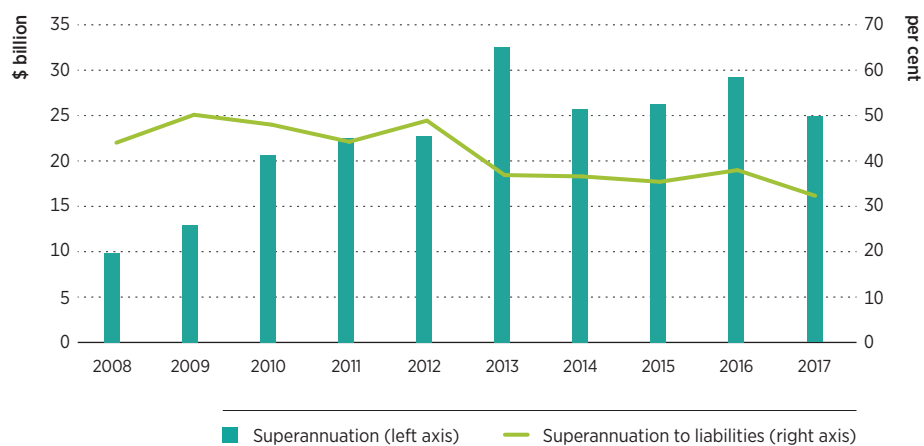
¹⁷⁷ Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.14

¹⁷⁸ The scheme is known as Emergency Services and State Super (ESSSuper).

¹⁷⁹ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.9

¹⁸⁰ *ibid.*

Figure 4.6 The unfunded superannuation liability (present value and as a proportion of total liabilities), 2008 to 2017^(a)



(a) Balances at 30 June each year.

Source: Department of Treasury and Finance, *Financial Report*, 2007-08 to 2016-17

FINDING 31: The present value of the unfunded superannuation liability for the general government sector decreased by \$4.4 billion between 2016 and 2017 to \$24.9 billion. This reduction is primarily explained by higher bond yields, and is the lowest unfunded superannuation liability since 2012.

5

Output expenditure and delivery

Key findings

- Expenses from transactions for the general government sector in 2016-17 totalled \$58.2 billion, which was 7.7 per cent higher than 2015-16 and 1.2 per cent more than originally anticipated.
- Employee-related expenses for 2016-17 (which include superannuation costs) were \$23.2 billion, which was \$0.2 billion higher than the budget figure.
- Grant expenses increased by 22.3 per cent to \$10.5 billion. This was an outcome of:
 - the timing of Commonwealth grants for on-passing to local governments
 - the timing of the transfer of the Synchrotron to the Commonwealth
 - transfer of responsibilities for specialist disability services to the Commonwealth under the National Disability Insurance Scheme
 - the newly-developed compensation grants for taxi licence-holders related to industry reforms.
- The 114 cost outputs can range considerably in terms of dollar value. The largest six cost outputs account for more than half of the State's total output cost.
- Multi-billion dollar budget outputs reduce the transparency of outcomes delivered in the health and education sectors.
- While the overall proportion of women working in the Victorian public sector in 2017 is unchanged from 2012, the proportion of female representation in certain areas of the public sector has improved. This includes the overall number of females and the number of female executives employed in the Department of Treasury and Finance. This has occurred as a result of measures such as gender balance in the recruitment process, flexible work arrangements and unconscious bias training.
- The composition of the Victorian veterans' community is changing in terms of age groups, gender composition and service needs.
- A new rooming house licensing system was introduced on 26 April 2017. At the end of 2016-17, 99 licences had been approved of the 1,184 rooming houses registered.
- The decline in unemployed learners enrolled in higher education and skills in 2016-17 may have been due to enrolments in some courses that were of deficient quality. The new *Reconnect* program will support early school leavers in vocational education.
- Some of the challenges for Victoria Police in addressing illegal brothel activity and minimising harm include:
 - the transitory nature of such brothels
 - illegal activity undertaken in legal brothels
 - gathering sufficient evidence to prosecute offenders.

5.1 Introduction

There are two major ways Government departments spend funds:

- expenditure on day-to-day items such as services and consumables, known as output expenses
- investment in new infrastructure and other physical assets, known as asset investment. This is discussed in the following chapter.

Outputs are described by the Department of Treasury and Finance as ‘a distinct product or service that a department provides to an external customer (or to another department)’.¹⁸¹ Most of the general government sector’s operational expenditure is reported in terms of outputs.

This chapter examines:

- expenses from transactions (section 5.2)
- financial components of expenditure (section 5.3)
- output costs by department (section 5.4)

This chapter also reviews some of the spending and outcomes for specific projects and programs undertaken in 2016-17 that were discussed at the inquiry public hearings (section 5.5). These are:

- initiatives and strategies relating to gender equality
- programs and activities for Victorian veterans and
- programs and initiatives for vulnerable Victorians.

5.2 Expenses from transactions

Expenses from transactions for the general government sector in 2016-17 totalled \$58.2 billion. This was a \$4.2 billion (7.7 per cent) increase on the previous year¹⁸² and \$0.7 billion (1.2 per cent) higher than had been anticipated at the time of the 2016-17 Budget.¹⁸³

FINDING 32: Expenses from transactions for the general government sector in 2016-17 totalled \$58.2 billion, which was 7.7 per cent higher than 2015-16 and 1.2 per cent more than originally anticipated.

¹⁸¹ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2017), p.15

¹⁸² Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.30

¹⁸³ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.6

5.3 Financial components of expenditure

The budget papers present a break-down of expenses that can be grouped into the following categories:

- employee-related expenses
- grant expenses
- other expenses such as purchases of goods and services, depreciation and interest.

5.3.1 Employee-related expenses

Employee-related expenses combine the costs of employment and superannuation. The expenses are primarily determined by the level and cost of employment in the general government sector, as well as some costs associated with superannuation (including employer contributions, service costs and interest).

For 2016-17, employee-related expenses totalled \$23.2 billion, or 39.9 per cent of total expenses for the year. This was \$1.5 billion (6.6 per cent) higher than 2015-16¹⁸⁴ and \$0.2 billion (0.8 per cent) higher than the original budget figure.¹⁸⁵ The Department of Treasury and Finance advises that the growth in employee expenses is due to: ‘... increased service delivery in the health and community safety sectors as well as salary growth in line with wages policy’.¹⁸⁶

At the public hearings, the Government’s wages policy was confirmed as:

... a fair pay guide of 2.5 per cent. Increases above that need to be squared away against service delivery improvements or other productivity trade offs. Where those increases are beyond 3 per cent there is more rigour in assessing the increases above that amount.¹⁸⁷

Data released by the Australian Bureau of Statistics (ABS) on wage growth indicates Victorian public sector wages increased by 3.2 per cent over the year to November 2017, compared to the national public sector wage increase of 2.4 per cent and 1.9 per cent for national private sector workers.¹⁸⁸ Mr Richard Bolt, Secretary of the Department of Economic Development, Jobs, Transport and Resources, provided the following advice to the Committee regarding wage growth:

¹⁸⁴ Committee calculations based on Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.30

¹⁸⁵ Committee calculations based on Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.6

¹⁸⁶ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.8

¹⁸⁷ Mr Matt O’Connor, Deputy Secretary, Industrial Relations Victoria, Department of Economic Development, Jobs, Transport and Resources, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.32

¹⁸⁸ Australian Bureau of Statistics, *Average Weekly Earnings*, Australia, November 2017, Cat. No. 6302.0

It has clearly been historically higher and there has been a general trend down since about the middle of 2011, a slight uptick for Victoria relative to the nation in this calendar year, and of course the general driver of wages growth, of productivity in particular, is perhaps a particular challenge for the business community and for government in its economic facilitation role.¹⁸⁹

The Department also confirmed to the Committee at the public hearings that 48 enterprise bargaining agreements (EBA) were signed in 2016-17.¹⁹⁰

FINDING 33: For 2016-17, employee-related expenses (which include superannuation costs) totalled \$23.2 billion, or 39.9 per cent of total expenses for the year. This was \$1.5 billion (6.6 per cent) higher than 2015-16 and \$0.2 billion (0.8 per cent) higher than the budget figure.

FINDING 34: There were 48 enterprise bargaining agreements signed in 2016-17.

5.3.2 Grant expenses

Total grant expenses over 2016-17 were \$10.5 billion, or 18.0 per cent of total expenses from transactions. This was \$1.9 billion (22.3 per cent) higher than for 2015-16¹⁹¹ and \$1.0 billion (10.8 per cent) higher than the original budget figure.¹⁹²

Grants are provided by the Government to a range of recipients and for a variety of purposes. This includes funds received from the Commonwealth that are passed on to other recipients including private schools and local governments.

The Department of Treasury and Finance notes that:

- grants to local governments have been paid in advance for 2017-18.¹⁹³ The Department of Environment, Land, Water and Planning also advised the Committee that ‘the Commonwealth revised the schedule for payment to Local Governments, with some of 2017-18 funding being provided in 2016-17. Hence, grant payments to Local Governments were correspondingly higher in 2016-17’,¹⁹⁴ and the 2017-18 budget has been adjusted accordingly
- grants made during the year by the State to the Commonwealth Government related to responsibilities for specialist disability services which were transferred to the Commonwealth Government under the National Disability Insurance Scheme (NDIS). These arrangements had not been finalised at the time of the 2016-17 Budget¹⁹⁵

189 Mr Richard Bolt, Secretary, Department of Economic Development, Jobs, Transport and Resources, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.3

190 Mr Matt O'Connor, Deputy Secretary, Industrial Relations Victoria, Department of Economic Development, Jobs, Transport and Resources, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.32

191 Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.30

192 *ibid.*, p.108

193 *ibid.*, p.109

194 Department of Environment, Land, Water and Planning, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.27

195 Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.109

- the expected transfer of the Synchrotron to the Commonwealth, involving the transfer of assets free of charge, which was anticipated in 2015-16, but not achieved until 2016-17¹⁹⁶
- taxi grants to the Taxi Services Commission increased by \$336.4 million,¹⁹⁷ mainly due to the recognition of transition assistance payments.¹⁹⁸ In August 2016, 'The Government decided to provide transitional financial assistance to existing perpetual and fixed term licence holders, who paid for licences upfront at the time of purchase'.¹⁹⁹ While the grant expense was recognised in 2016-17, the bulk of the assistance payments are expected to be made during 2017-18.

The Department of Education and Training advised the Committee that an additional \$217.5 million in grants and other transfers were paid in 2016-17. This includes \$77.6 million paid to other Victorian Government departments to fund cross-government initiatives relating to training, workforce development and job creation along with the provision of vocational education training in prisons.²⁰⁰

FINDING 35: Grant expenses increased by 22.3 per cent to \$10.5 billion. This increase was due to:

- the timing of Commonwealth grants for on-passing to local governments
- the timing of the transfer of the Synchrotron to the Commonwealth
- the transfer of responsibilities for specialist disability services to the Commonwealth under the National Disability Insurance Scheme
- the newly-developed compensation grants for taxi licence-holders related to industry reforms.

5.3.3 Other expenses

After employee-related and grant expenses, the balance of total expenses is made up of a large number of components, including depreciation, interest expenses, purchases of supplies and consumables, and purchases of services (such as expenditure on service contracts for office equipment).

Other expenses totalled \$23.2 billion for 2016-17, a \$0.7 billion (3.3 per cent) increase on 2015-16.²⁰¹ This was also \$0.5 billion less than the amount anticipated in the original budget, largely due to lower interest costs and less spent on purchases of supplies and consumables.²⁰²

¹⁹⁶ *ibid.*

¹⁹⁷ Department of Economic Development, Jobs, Transport and Resources, *2016-17 Annual Report* (2017), p.44

¹⁹⁸ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.109

¹⁹⁹ Taxi Services Commission, *2016-17 Annual Report* (2017), p.76

²⁰⁰ Department of Education and Training, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, pp.36-37

²⁰¹ Committee calculations based on Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.30

²⁰² Committee calculations based on Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), pp.30-1

FINDING 36: Other expenses were \$23.2 billion for 2016-17. This was more than 2015-16, but less than the anticipated amount, largely due to lower interest costs and less spent on purchases of supplies and consumables.

5.4 Output costs by department for 2016-17

Table 5.1 shows the total output costs and variances from targets by department.

Table 5.1 Total output costs by department, target and actual, 2016-17

Department	Target	Actual	Variance	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Economic Development, Jobs, Transport and Resources	8,522.7 ^(a)	8,897.3	374.6	4.4
Education and Training	13,489.6	13,036.8	-452.8	-3.4
Environment, Land, Water and Planning	1,823.7 ^(a)	1,840.6	16.9	0.9
Health and Human Services	20,746.2 ^(a)	21,383.0	636.8	3.1
Justice and Regulation	6,204.3 ^(a)	6,337.8	133.5	2.2
Premier and Cabinet	585.8	473.8	-112.0	-19.1
Treasury and Finance	258.1	352.6	94.5	36.6
Parliament ^(b)	196.0	194.2	-1.8	-0.9
Court Services Victoria	487.0	494.7	7.7	1.6
Total	52,313.4	53,010.8^(c)	697.4	1.3

(a) Targets have been adjusted to reflect rearrangements of the 'Resources' output and two 'Youth Justice' outputs between departments.

(b) Excludes Parliamentary Budget Office output.

(c) A number of other factors mean that the total output expenditure by departments and agencies are not equal to total expenditure on the general government sector statement of operations. These include part-funding of agencies and adjustments for transfers between departments.

Sources: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2; Departmental annual reports, 2016-17

The 2016-17 output costs by department show:

- the Department of Health and Human Services had the largest output cost (\$21.4 billion), which was \$636.8 million higher than the original budget estimate. This was driven by an increase in spending in the *Admitted Services* output. The Department of Treasury and Finance had the highest positive variation in percentage terms, with the actual departmental output cost (\$352.6 million) 36.6 per cent greater than the original budget estimate. The Department's *Annual Report 2016-17* indicates that this variance occurred entirely within the *Commercial and Infrastructure Advice* output, which spent \$145.2 million against the original budget of \$48.2 million²⁰³

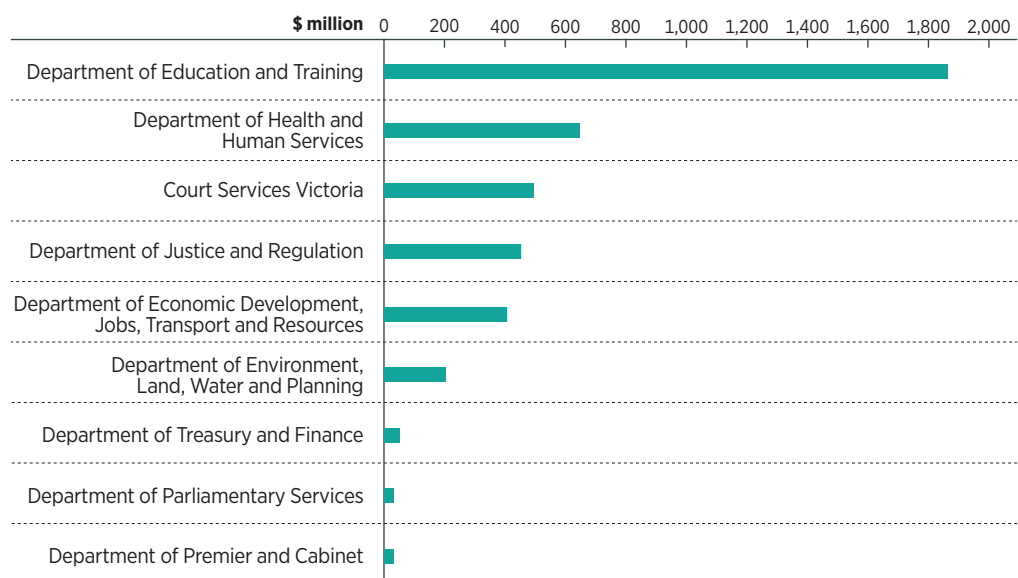
203 Department of Treasury and Finance, *Annual Report 2016-17* (2017), p.24

- the Department of Education and Training was the second largest department in terms of output cost, and the 2016-17 result of \$13.0 billion was \$452.8 million less than the original budget estimate. Spending on the *Training, Higher Education, Workforce Development and Skills* output was \$303.0 million lower than target, 'primarily due to lower than expected third party revenue from TAFEs compared to target due to a decline in enrolment numbers and the timing in delivery of certain programs'.²⁰⁴ Also, spending on the *School Education – Secondary* output was \$139.9 million under budget
- the Department of Premier and Cabinet output cost of \$473.8 million was 19.1 per cent (\$112.0 million) under the original budget figure, driven by an underspend in the *Government-wide Leadership, Reform and Implementation* output, 'due to unspent funds to be carried over for Service Victoria and NDIS to 2017-18'.²⁰⁵

5.4.1 Size of outputs

Each departmental output has an associated cost measure, which means its size can be measured in terms of budget or actual expenditure. Using this measure, outputs can range from very large to very small. In 2016-17, the largest output in terms of cost was the Department of Health and Human Services *Admitted Services* output, which spent \$9.9 billion in 2016-17.²⁰⁶ By comparison, the smallest output is the Department of Premier and Cabinet's *Office of the Victorian Government Architect*, which spent \$1.5 million.²⁰⁷

Figure 5.1 Average output size^(a) by department, 2016-17



(a) Based on output cost for 2016-17.
Source: Departmental annual reports, 2016-17

²⁰⁴ *ibid.*, p. 36

²⁰⁵ Department of Premier and Cabinet, *Annual Report 2016-17* (2017), p.19

²⁰⁶ Department of Health and Human Services, *Annual Report 2016-17* (2017), p.42

²⁰⁷ Department of Premier and Cabinet, *Annual Report 2016-17* (2017), p.24

Figure 5.1 shows that the Department of Education and Training has the largest average output size. The Committee notes that this is not only because it is a large department (it is responsible for 23.8 per cent of the State's total output expenditure), but it also only has seven outputs. In comparison, the Department of Environment, Land, Water and Planning arranges its work, which represents 3.4 per cent of the State's total output expenditure, into nine outputs.

5.4.2 Large and diverse outputs

Certain outputs are very large in terms of their budgeted cost and the Committee notes that 14 outputs amounted to more than \$1 billion each in 2016-17.²⁰⁸ The largest six outputs (out of a total of 114 outputs) account for more than half of the total cost (Table 5.2).

Table 5.2 Expenditure on largest six outputs, 2016-17

Output (department)	Actual expenditure 2016-17 (\$ million)
<i>Admitted Services</i> (Department of Health and Human Services)	9,892.9
<i>School Education – Primary</i> (Department of Education and Training)	4,886.9
<i>School Education – Secondary</i> (Department of Education and Training)	4,016.9
<i>Train Services</i> (Department of Economic Development, Jobs, Transport and Resources)	2,988.1
<i>Policing Services and Crime Prevention</i> (Department of Justice and Regulation)	2,796.7
<i>Training, Higher Education, Workforce Development and Skills</i> (Department of Education and Training)	2,174.5
Subtotal of largest six outputs	26,756.0
All other outputs (no=108)	26,254.8
Total costs of all outputs for the State	53,010.8

Source: Committee calculations based on departmental annual reports, 2016-17

FINDING 37: The 114 cost outputs can range considerably in terms of dollar value. The largest six cost outputs account for more than half of the State's total output cost.

The Committee notes that the titles of many outputs cover a diverse range of activities. The *Admitted Services* output, for example, encompasses all services provided to patients admitted to hospitals, regardless of the nature of their admission, or services required. For instance, it includes mental health services, emergency department admissions and outpatient care.

208 Departmental annual reports, 2016-17

The two school education outputs also include a variety of different activities. The 2016-17 budget papers indicate infrastructure-related programs, such as the *Land Acquisition* program, *New Schools* construction, *Planning for Schools* and *Relocatable Classrooms*, contribute to the two major school education (*Primary* and *Secondary*) outputs. While infrastructure projects are administered by the Victorian Schools Building Authority, this entity does not prepare an annual report that details spending on infrastructure projects. The expenditure on these infrastructure projects is also not specifically detailed in the Department's annual report. In effect all program delivery, administration and infrastructure funding expenditure across the Government primary and secondary school system, is captured in two outputs worth a combined \$8.9 billion.

The Committee considers that the grouping of such large and diverse expenditures into one single output diminishes transparency and accountability. This view was also expressed by the Minister for Finance, who advised the Committee in 2015 that:

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.²⁰⁹

The Committee considers that splitting the *Admitted Services* output in some relevant way, such as by speciality, size or location would provide improved information for policy-makers within the health sector as well as the Parliament and community. Similar disaggregation would be useful for the schools' outputs. The outputs could be divided into location (e.g. metropolitan, peri-urban, regional) or activity (e.g. education delivery, infrastructure planning and building).

FINDING 38: A small number of outputs have very large cost amounts such as the Department of Health and Human Services' *Admitted Services* output (\$9.9 billion) and the Department of Education and Training's *School Education – Primary* (\$4.9 billion) and *School Education – Secondary* (\$4.0 billion) outputs.

FINDING 39: The consolidation of expenditures into multi-billion dollar budget outputs reduces the transparency of outcomes delivered in the health and education sectors.

RECOMMENDATION 3: The largest three outputs by cost be disaggregated into smaller outputs that represent like activities. These outputs are:

- (a) the Department of Health and Human Services' *Admitted Services* output
- (b) the Department of Education and Training's *School Education – Primary* and *School Education – Secondary* outputs.

209 Hon. Robin Scott MP, Minister for Finance, *2015-16 Budget Estimates Transcript of Evidence*, 14 May 2015, p.2

5.5 Notable output expenditure programs over 2016-17

The public hearings conducted in February 2017 provided an opportunity for the Committee to examine various programs and initiatives delivered in 2016-17 with representatives from the Victorian Government departments. The following topics emerged from the Committee's deliberations at the public hearings:

- achieving gender equality
- the service needs of veterans
- vulnerable Victorians.

5.5.1 Gender equality

The 2016-17 Budget allocated \$9 million over 2016-17 and 2017-18 towards the *Achieving Equality for Victorian Women* output initiative, aimed at developing and delivering the first gender equality strategy for Victoria. In December 2016, the *Safe and Strong* gender equality strategy was launched. Ms Rebecca Falkingham, Deputy Secretary of the Department of Premier and Cabinet explained to the Committee at the public hearings:

It [the *Safe and Strong* strategy] set out a series of early actions which have been delivered in key settings ... workplace, education, training, media and sport. We have worked with those sectors quite intensively around their programs, their procedures, their frameworks within their own organisation when it comes to gender equality. There is the development of gender equality legislation, gender audits of public service workplaces, targets to lift the women's public sector leadership.²¹⁰

Some of the actions outlined in the *Safe and Strong* strategy have particular relevance to public spending and the State's finances. The Strategy notes that the Victorian Government has considerable purchasing power, providing \$2 billion in funding to the not-for-profit sector as well as spending \$10 billion on various goods and services from the private sector.²¹¹ The Strategy states the Government will be 'leveraging' this spending power to promote gender equality by encouraging suppliers and contractors to become 'gender equality employers', embedding gender equality goals within Government contracts and supporting businesses run and owned by women.²¹²

At the public hearings, the Committee was informed that developing a reporting framework of outcomes against targets and initiatives outlined in the Strategy is currently underway:

²¹⁰ Ms Rebecca Falkingham, Deputy Secretary, Social Policy and Service Delivery, Department of Premier and Cabinet, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2018, p.22

²¹¹ Department of Premier and Cabinet, *Safe and Strong: A Victorian Gender Equality Strategy* (2016), p.11

²¹² *ibid.*

A detailed implementation plan is also being used to guide the use of funding and delivery of projects over the next two years. Measures are in place to monitor the effectiveness of *Safe and Strong*, including the establishment of ... the gender equality data baseline, identifying additional targets and annual reporting to Parliament on progress towards gender equality.²¹³

The first report is due in mid-2018.

Gender responsive budgeting

The *Safe and Strong* strategy also outlines the development of gender responsive budgeting (GRB) processes, whereby the Government budget development and expenditure review systems incorporate the impact of gender differences, gender inequalities in income and assets and varying service needs.²¹⁴ Although the 2017-18 Budget contained a *Gender Equality Budget Statement* amongst the budget papers, the statement only outlined the initiatives and funding programs relating to gender equality in the budget. A detailed discussion of the economic impact of the year's gender equality policies and funding initiatives was not included. Nevertheless, the Committee was informed that a more rigorous and informative process is currently being followed for the upcoming budget year:

We did release a gender impact statement with the budget ... I am aware that they [Department of Health and Human Services] are working intensively with the Department of Treasury and Finance to make sure that this year's statement is obviously much more evidenced and resource based for tabling with the budget in May.²¹⁵

According to the *Safe and Strong* strategy, the targets for gender equality in Victorian Government procurement, budgeting and policy making will 'be determined by June 2018'. The Committee looks forwards to seeing greater analysis of the budgetary and economic impacts of gender equality policies and targets set by the Government. Possible opportunities for providing further information to the Parliament and the community on this topic includes:

- an assessment of the impact of the overall Budget on women and girls aged over 12
- annual reporting by departments of achievements in relation to gender equality, together with the development of performance measures to track progress
- development and reporting of targets for greater gender equality in the public sector, including recruitment and the procurement of gender-responsive suppliers and contractors.

FINDING 40: The Government is in the process of developing targets and an annual reporting program to track progress against benchmarks of gender equality.

213 Ms Rebecca Falkingham, Deputy Secretary, Social Policy and Service Delivery, Department of Premier and Cabinet, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2018, p.22

214 Department of Premier and Cabinet, *Safe and Strong: A Victorian Gender Equality Strategy* (2016), p.12

215 Ms Rebecca Falkingham, Deputy Secretary, Social Policy and Service Delivery, Department of Premier and Cabinet, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2018, p.23

RECOMMENDATION 4: Targets and metrics developed for gender equality are developed that include:

- (a) measuring the impact of the overall Budget on women and girls aged over 12
- (b) performance measures tracking achievements and progress at the departmental level, reported upon annually
- (c) targets for greater gender equality in the public sector, including recruitment and the procurement of gender-responsive suppliers and contractors.

Gender equality in Victorian Public Service employment

There were 297,016 people employed across the Victorian public sector, representing 8.9 per cent of the total Victorian workforce, as at 30 June 2017.²¹⁶ Public sector workers deliver services to the community across:

- the public health care system
- Government schools
- the TAFE and other education sectors
- the Victorian Public Service (VPS)
- police and emergency services
- water and land management authorities
- creative industries agencies
- finance and insurance entities
- transport authorities.

The *State of the Public Sector in Victoria Report 2016-17* noted that at 30 June 2017, 66 per cent of the Victorian public sector workforce was female, in comparison to 47 per cent of the overall Victorian workforce.²¹⁷ However, this above average representation of women in the Victorian public sector workforce largely reflects the high proportion of women employed in public health care and school education industries. Public sector industries where the proportion of women is below the State average include police and emergency services (30 per cent) and water and land management (38 per cent).²¹⁸ The report notes there has been little change in the proportion of women employed across the various Victorian public sector industries since 2012, with the TAFE and other education sector and the water and land management industries both experiencing an increase of 2.6 per cent over the five year period.²¹⁹

At the public hearings the then Chief Fire Officer of the Department of Environment, Land, Water and Planning informed the Committee of the reporting and recruitment measures underway to ensure greater female representation in emergency services staff:

216 Victorian Public Sector Commission, *The State of the Public Sector in Victoria, 2016-2017* (2017), p.13

217 *ibid.*, p.31

218 *ibid.*

219 *ibid.*

We have a strong focus on being an attractive employer for a wide variety of people. Of the 2700 odd staff that we have, approximately 29 per cent are female. This is skewed for different roles, but we do track that and we do report on it. We are working very closely with the staff that we already have, the female staff in particular, to learn from their experiences and to make sure that we have no cultural barriers for their progression, but we also took the approach of really reviewing the way that we are recruiting and the types of recruitment material that we have so that we can have success in attracting more females into firefighting roles. Of course we have been talking about females, but diversity is important across our whole portfolio.²²⁰

While the overall proportion of female VPS staff (61 per cent) at June 2017 is unchanged from June 2012,²²¹ the proportion of executive female staff has increased to 48.9 per cent from the 40.3 per cent over the same time period. Similarly, the proportion of female executives in public entities (such as public hospitals, TAFEs and water catchment authorities) increased to 39.8 per cent by 30 June 2017 from 32.1 per cent five years previously.²²²

Nevertheless, the Committee notes the under-representation of women in senior executive levels in the VPS. For example, only two of the 15 of the witnesses made available by the Department of Economic Development, Jobs, Transport and Resources for the 2016-17 Financial and Performance Outcomes hearing were women.

The Secretary of the Department of Treasury and Finance informed the Committee of the measures and improvements in terms of gender balance taking place in that department over 2016-17, although the Committee notes the Department has the lowest proportion of women employed of all of the seven departments:

As a department as a whole, as of 30 June 2017 our gender balance was 51.55 per cent male, 48.45 per cent female. There are effectively three layers — deputy secretaries to my left and right and then the two layers below. At the executive officer level as of 30 June 2017 our female representation was 35.8 per cent. I have not tracked back the data going back to the 1800s, but I suspect that is probably a peak.

We have been doing a lot of work in the department and we have had a lot of discussions around diversity in general but also in particular gender diversity, and we have put together a diversity inclusion framework and plan to try to address that particular issue. ... I am happy to report to the committee that while we have been stuck in the low 30s for, I suspect, many years, as of today, subject to perhaps a few other movements, we are probably sitting now at around 43 per cent.²²³

220 Ms Stephanie Rotarangi, Chief Fire Officer, Department of Environment, Land, Water and Planning, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.7

221 Victorian Public Sector Commission, *The State of the Public Sector in Victoria, 2016-2017* (2017), p.31

222 *ibid.*

223 Mr David Martine, Secretary, Department of Treasury and Finance, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 12 February 2018, p.22

The improvement in the proportion of women in executive level positions in the Department of Treasury and Finance was also a result of a broad executive level recruitment exercise undertaken by the Department over 2016-17. The Secretary told the Committee:

... probably the biggest thing we have done — and we have a target as part of our diversity inclusion framework; we do have a target of aiming for a 50/50 gender balance at the executive officer level — is we have undertaken what I describe internally in the department as a significant executive officer refresh. That is a combination of a number of executives moving outside of the department, some of them moving internally and quite a significant recruitment program to backfill all of those positions. The combination of all of that has pretty much moved us to I think roughly about 43 per cent, subject to a few other positions that we are just finalising as we speak.²²⁴

The Secretary further explained the Department instigated measures to improve gender diversity including:

- aiming for gender balance in recruitment, whereby the shortlisting process for positions includes equal numbers of male and female candidates, as well as having a gender balance on selection panels
- flexible work arrangements to be more accommodating for staff with family responsibilities
- unconscious bias training, including ‘... a pilot in one of the other divisions to de-identify CVs ... that often relates to removing names, age and gender at the initial shortlisting process’.²²⁵

Further to the Department of Treasury and Finance’s efforts to remove unconscious bias in organisational recruitment practices, the Committee was also informed of the wider *Recruit Smarter* initiative by the Department of Premier and Cabinet’s Deputy Secretary of Social Policy and Service Delivery:

Recruit Smart is a multisector collaborative initiative for the Victorian government to tackle unconscious bias and drive inclusive recruitment practices. It brings together really prominent Australian businesses ... [including]... Dow Chemical, Transurban, United Energy, Westpac, PricewaterhouseCoopers, the Ethnic Communities Council of Victoria, the Department of Justice and Regulation, Ambulance Victoria, VicHealth, WorkSafe and the EPA...

Over the last 18 months *Recruit Smarter* has seen 35 public, private, academic and non government organisations participating in this initiative, working innovatively together to trial different ways of recruiting inclusively and stopping unconscious bias. The project is about, as you know, removing barriers to ensure prospective workers can get jobs with the skills, experience and qualifications they have regardless of their background.²²⁶

224 *ibid.*, pp.23

225 *ibid.*, p.22

226 Ms Rebecca Falkingham, Deputy Secretary, Social Policy and Service Delivery, Department of Premier and Cabinet, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2018, p.27

The Committee was told the pilot exercise involved 250 recruitment positions across the 35 participating agencies and is in the final stages of implementation, with a final report embedding unconscious bias policies ‘in our practices in the public service longer term’.²²⁷

FINDING 41: While the overall proportion of women working in the Victorian public sector in 2017 is unchanged from 2012, the proportion of female representation in certain areas of the public sector has improved. This includes the overall number of females and the number of female executives employed in the Department of Treasury and Finance. This has occurred as a result of measures such as gender balance in the recruitment process, flexible work arrangements and unconscious bias training.

Gender equality in the local government sector

The Department of Environment, Land, Water and Planning has responsibility for the local government sector and the Committee was told of a series of initiatives the Department has recently instigated to create greater gender balance both in terms of elected council representatives and employment within the sector:

What is happening in that space is the government is really encouraging the participation of women in local government. The minister has established a ministerial women’s round table with representation from women chief executive officers to talk about the issues, and also from the representatives from the peak local government bodies, trying to create a platform for shared learnings about how we can increase participation. The government recently established the *Local Government Listen, Learn and Lead Gender Equity Program*, with 31 participating councils helping to identify strategies and actions to increase gender equity in the sector. There are a range of conversations and processes the government is going through to promote participation of women in the sector.²²⁸

The Committee was also informed that the proportion of female councillors and members of senior management in the local government sector are also increasing:

In relation to the gender equity in councils, it is another of the priorities of the government to ensure the councils better reflect the communities they serve. The reality is that women are still under represented in council chambers and in senior management roles. However, the results of the 2016 council elections saw the number of women councillors increase from 33.9 at the 2012 council elections to 38.1 per cent at the 2016 council elections.²²⁹

FINDING 42: The proportion of women on Victorian councils increased from 33.9 per cent in 2012 to 38.1 per cent by 2016.

²²⁷ *ibid.*, p.28

²²⁸ Mr Terry Garwood, Deputy Secretary, Local Infrastructure, Department of Environment, Land, Water and Planning, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.31

²²⁹ *ibid.*

Setting targets for female representation on Government boards

In March 2015, the Premier announced that women would make up at least 50 per cent of future appointments to Courts and paid government boards in Victoria.²³⁰ At the public hearing conducted with the Department of Environment, Land, Water and Planning the Committee heard of the impact of this target on the composition of Catchment Management Authority (CMA) boards. There is currently a CMA for each of the ten water catchment regions across Victoria.

The Committee was told by the Deputy Secretary of Local Infrastructure:

In terms of the catchment management authority board appointments we actually got 240 applications, which was a really big increase for applications for catchment management board positions. With the boards actually having commenced in October 2017, we now have 60 per cent of board members who are female, six of the 10 chairs are women and we also have five board members who identify as Aboriginal Victorians.²³¹

FINDING 43: The representation of women on Catchment Management Authority Boards is now over 50 per cent, with 60 per cent of Board members being female, as well as six out of ten Chairs.

Reporting on staff gender information in the Victorian Public Service

The Committee understands that three gender categories (women, men and self-described) will be introduced into reporting on staff gender information in the VPS under Financial Reporting Directions 15D and 29B. The revised approach is recommended for the 2017-18 and 2018-19 reporting periods and will be mandatory for all public service bodies from 2019-20 onwards.²³²

5.5.2 Veterans

Victorian veterans are currently represented within the veterans' branch of the Department of Premier and Cabinet.²³³ The *Support to Veterans in Victoria* output of the Department had a budgeted cost of \$6.9 million in 2016-17, and an actual expenditure of \$6.0 million.²³⁴ According to the Department's *Annual Report 2016-17*, the spending shortfall was due to 'unspent funding on the ANZAC Centenary projects and the *Victoria Remembers* program, which will be carried over to 2017-18'.²³⁵

²³⁰ Premier of Victoria, 'Balanced Boards Make Better Decisions' (Media Release, 28 March 2015)

²³¹ Ms Helen Vaughan, Deputy Secretary, Water and Catchments, Department of Environment, Land, Water and Planning, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.31

²³² Department of Treasury and Finance, December 2017, *Accounting Policy Update: Newsletter*, edition no. 33, pp.3-4

²³³ *About Veterans Branch*, available at <<https://www.dpc.vic.gov.au/index.php/veterans/about-veterans-branch>>, viewed 19 February 2018

²³⁴ Department of Premier and Cabinet, *Annual Report 2016-17*, p.29

²³⁵ *ibid.*

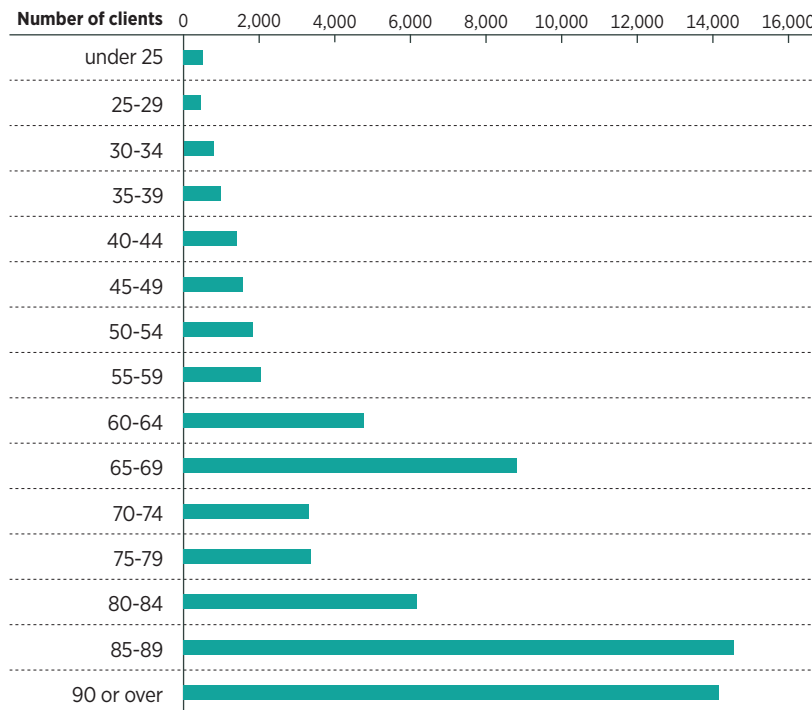
The veterans’ branch of the Department of Premier and Cabinet administers various grant programs that support the veteran community, provides support for ex-service organisations (ESOs) as well as assisting in the upkeep and care of significant war heritage facilities and monuments. The veterans’ branch also provides secretariat support for the Victorian Veterans Council (VVC), an independent statutory authority established in 2006 under the *Veterans Act 2005*. Eight of the 11 Council members are required to be members of the ex-service community or members of ESOs, and the Council reports and advises the Minister for Veterans Affairs directly on issues affecting the Victorian veterans’ community.

The Victorian veterans’ community

In 2015, the VVC commissioned a review of the veterans’ community in Victoria in order to establish the priority needs to inform the VVC’s future direction and strategic planning activities. The *Veterans Sector Study Report 2015 for the Victorian Veterans Council* was published in December 2015 and made 14 recommendations which were all supported by the Government.²³⁶

The report found the veterans’ community in Victoria is changing, and there are difficulties in treating it as one homogenous group. The data provided to VVC by the Commonwealth Department of Veterans Affairs (DVA) on age cohorts of their clients, seen in Figure 5.2, demonstrates these differences.

Figure 5.2 Department of Veterans’ Affairs Victorian clients by age group, 2014



Source: Grosvenor Management Consulting, *Veterans Sector Study Report 2015 for the Victorian Veterans Council* (2015), p.43

236 Victorian Government Response to the *Veterans Sector Report 2015* (2017), available at <<https://www.dpc.vic.gov.au/index.php/veterans/veterans-sector-study-report-2015>>, viewed 26 February 2018

The report also found that:

- physical and mental health services and employment and income security were identified as the most important needs by the veteran community²³⁷
- younger ex-service people and ex-service women are less likely to identify as ‘veterans’, and thus more likely to be unaware of services available to them²³⁸
- younger ex-service people are less likely to engage with ESOs or other traditional services than older ex-service people²³⁹
- veteran services, ESOs and commemoration activity are seen as Melbourne-centric.²⁴⁰

FINDING 44: The composition of the Victorian veterans’ community is changing in terms of age groups, gender and service needs.

Employment services available to veterans in Victoria

While key services for veterans such as health care and income support are mostly administered at the Commonwealth level by the DVA, over 2016-17 the Victorian Government developed programs focussing on employment and mental health aimed at younger veterans. This includes:

- the *Public Sector Veterans Employment Strategy* launched in November 2016, which provides on line and other resources supporting veterans who wish to find employment in the Victorian Public Service (VPS). The Strategy aims to have 250 veterans employed in the VPS²⁴¹
- the establishment of the Veterans’ Employment Advocate. Major General David McLachlan (Rtd) has been appointed to this new position and it is anticipated he will work with the VVC, Victorian ESOs and veteran employment providers to explain the benefits to potential employers of hiring veterans.²⁴²

At the public hearings, Mr Simon Phemister of the Department of Premier and Cabinet explained to the Committee the work being undertaken in regard to veteran employment:

Over the years our veterans affairs portfolio has been aimed at the World War I commemoration and the Anzac commemoration, but actually what we are seeing is a lot of really terrifically talented people coming out of the defence forces that are perceived by the community as scarred in some way, shape or form but actually are

²³⁷ Grosvenor Management Consulting, *Veterans Sector Study Report 2015 for the Victorian Veterans Council* (2015), pp.50-55

²³⁸ *ibid.*, pp.27-34

²³⁹ *ibid.*, pp. 34-40

²⁴⁰ *ibid.*, p.23

²⁴¹ Department of Premier and Cabinet, *Public Sector Veterans Employment Strategy*, available at <<https://www.dpc.vic.gov.au/index.php/veterans/public-sector-veterans-employment-strategy>>, viewed 26 February 2018

²⁴² Hon. John Eren MP, Minister for Veterans, ‘New Advocate to Lead Veterans Employment Strategy’ (Media release, 5 July 2017)

highly talented, productive individuals. If what they need is some support to get them out of the service and into jobs, then we are happy to provide those supports, and that is exactly what this program does.

We actually have a few younger veterans who work for us on this program. It was important to us that they were the ones who designed it, so with David's leadership, obviously retired, and these young veterans, we got a really great insight into the process of, if you like, demilitarising a mode of working and then the challenges faced in engaging with the labour market, be it through job search supports, mental health supports, training supports or anything else the veterans themselves tell us they need.²⁴³

The Committee was also informed that the Victorian Centre for Data Insights (VCDI) is:

... working with the veterans branch in DPC to track employment outcomes for ADF veterans who are returning into the community after their service to the country...²⁴⁴

The VCDI was established over 2016-17 and is discussed further in Chapter 8 on public access to Government data.

The Committee asked the Minister for Veterans at the 2017-18 budget estimates hearing held in May 2017 how many veterans had been employed as a result of the employment initiative. The Minister advised that since the inception of the program no veterans had been employed.²⁴⁵ Employment initiatives that target this valuable cohort are important and the Committee looks forward to reviewing the outcomes of the program in the coming years.

Mental health services

In addition to employment services, the Committee was also informed at the public hearings about mental health services available to veterans. The Australian Institute of Health and Welfare (AIHW) released a report last year which found that while there was no excess suicide mortality for serving full-time and Reserve Australian Defence Force personnel, suicide rates for ex-service men were high across all age groups from 18 to 49, and suicide rates of ex-service men aged between 18 to 29 were 1.7 times higher than Australian men of the same age.²⁴⁶

Mr Phemister further explained to the Committee:

What is important to us is that, on exiting the military, services are on hand to help people really get on top of and understand whether they do have post traumatic issues. They sometimes do not become apparent straightaway, so it is really important that supports are not seen as a transaction; it is an ongoing support. And that is one of the unique parts of this program. Yes, there are definitely mental

²⁴³ Mr Simon Phemister, Deputy Secretary, Economic Policy and State Productivity, Department of Premier and Cabinet, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2018, pp.35-36

²⁴⁴ Mr Tony Bates, Deputy Secretary, Governance Policy and Coordination, Department of Premier and Cabinet, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2018, p.25

²⁴⁵ Hon. John Eren MP, Minister for Veterans, *2017-18 Budget Estimates Transcript of Evidence*, 23 May 2017, p.5

²⁴⁶ Australian Institute of Health and Welfare, *Incidence of suicide among servicing and ex-serving Australian Defence Force Personnel - Detailed Analysis 2001-2015 (2017)*, pp.70,75

health services provided and the Department of Veterans' Affairs have responsibility for that, but we do step in, and obviously the state mental health system is really strong, and we give the veterans access to that. But it is not an assumption as people come out. It is certainly a checkpoint and a service that is offered, rather than assumed.²⁴⁷

FINDING 45: Programs focussing on employment and mental health aimed at younger veterans include the *Public Sector Veterans Employment Strategy* which supports veterans who wish to find employment in the Victorian Public Service, the establishment of the Veterans' Employment Advocate and access to the State mental health system.

Commemoration activities over 2016-17

The Committee was informed of the significant war commemoration activities that were funded by the Government taking place over 2016-17, including the World War I Centenary celebrations, and the commemoration of the Battle of Long Tan.

The output initiatives relating to the centenary of World War I were announced in the 2014-15 and 2015-16 Budgets and totalled \$11 million.²⁴⁸ Programs and funding associated with the Centenary include:

- the Premier's *Spirit of ANZAC Prize*, an annual competition to select Years 9 and 10 students for an overseas study tour of sites where Australians have served in war²⁴⁹
- the *Restoring Community War Memorials and Avenues of Honour Grant Program*, whereby communities can receive grants to ensure local war memorials, honour rolls and avenues of honour are restored to their original condition or improved to reflect the service history.²⁵⁰

The Committee was told at the public hearings that the programs and events funded over recent years to celebrate the centenary of World War I had seen an increase in participation in ANZAC Day celebrations, particularly based around the Shrine of Remembrance:

The numbers of shrine visits have been consistently high over a number of years. If you followed participation in commemoration, there was a downturn in living memory, but what we have seen recently is an enduring uptick and a real consistency in that uptick. We are seeing 50 000, 60 000 on a yearly basis. Obviously they peak around Anzac Day, those visits.²⁵¹

²⁴⁷ Mr Simon Phemister, Deputy Secretary, Economic Policy and State Productivity, Department of Premier and Cabinet, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2018, p.35

²⁴⁸ Department of Treasury and Finance, *Budget Paper No.3: 2014-15 Service Delivery* (2014), p.42; Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.92

²⁴⁹ *Student Study Tours*, Available at <anzaccentenary.vic.gov.au/student-study-tours>, viewed 26 February 2018

²⁵⁰ <https://www.dpc.vic.gov.au/index.php/veterans/veterans-grants/commemorative-grants-restoring-war-memorials-and-avenues-of-honour>, viewed 26 February 2018

²⁵¹ Mr Simon Phemister, Deputy Secretary, Economic Policy and State Productivity, Department of Premier and Cabinet, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2018, pp.36-37

The fiftieth anniversary of the Battle of Long Tan was held on 18 August 2016. The Government had budgeted \$1 million towards engagement and educational activities for Vietnam War veterans and the wider Victorian community commemorating the event. The Committee was informed:

The Battle of Long Tan commemoration was a really great moment ... we had obviously the big moment at the Shrine where the Premier led a really touching service that involved a lot of veterans from different regiments and different countries and nations ... We had a lot of veterans who in some way felt alienated from traditional commemoration services, and I think that was the marked experience from the Long Tan commemorations this year ... there were a lot of school children involved, and there is a whole education campaign built up around Long Tan. What we think we got out of that, from a commemoration perspective, is an evolution of the spirit of Anzac and an acceptance that Long Tan very much built on the legacy of Anzac and is a core and proud part of Australia's military history. That was the goal, and we think based on that day and all the local services we achieved it.²⁵²

FINDING 46: Events and activities associated with the World War I Centenary and fiftieth anniversary of the Battle of Long Tan have seen an increase in participation, particularly for school children, in ANZAC remembrance services, together with a greater community awareness of Australia's military history.

5.5.3 Vulnerable Victorians

The issue of vulnerable Victorians was raised with several secretaries and departmental staff throughout the 2016-17 financial and performance outcomes hearings. Families subject to family violence, asylum seekers trying to gain employment, access to acute mental health services and suicide prevention programs were discussed. The three areas of vulnerability are examined in more detail in this section are:

- homelessness
- disadvantaged students
- illegal brothels.

Rooming houses and homelessness

Under the *Residential Tenancies Act 1997*, a rooming house is a building where:

- one or more rooms is available for rent
- the total number of people who may occupy those rooms is four or more
- the Minister for Housing has declared a property as a rooming house.

Common characteristics of rooming houses include:

- residents sharing bathrooms, kitchens, laundries and other common areas
- owners and their families generally living away from the premises

²⁵² *ibid.*, p.35

- possibly separate rental agreements in existence for different residents.²⁵³

The Consumer Affairs Victoria (CAV) *2016-17 Annual Report* states that:

Rooming houses often attract the most vulnerable Victorians who are unable to obtain any other form of accommodation, including the long-term homeless and people in need of crisis housing. Residents often include single people on low incomes and a growing number of older women, international students and recently arrived migrants.²⁵⁴

In the 2016-17 Budget, \$1.5 million was allocated to rooming house upgrades. Substantial upgrades were planned for houses in Ascot Vale, Flemington and St Kilda to improve the safety and welfare of residents.²⁵⁵

CAV was asked at the hearing about the 621 rooming house inspections that were undertaken in 2016-17 compared to 1,252 the previous year. CAV was also asked why of the 1,184 rooming houses registered in 2016-17, only 99 licences were approved by 30 June 2017, following the new licensing requirements that came into effect on 26 April 2017.

The Director of CAV advised that:

In 2016–17 we really focused our efforts on where we thought they would have the most impact, so new rooming houses, rooming houses where we might not have found full compliance on previous inspections and the like. So our inspection programs will vary depending on the purpose, the intelligence, the risk we are identifying in relation to them.

In relation to rooming house licences, so in addition to the requirement that each rooming house be registered with a local council, since April 2017 there has been a requirement that rooming house operators are also licensed and pass what we call a bright-line fit and proper person test about past history, particularly criminal history or history of non-compliance with rooming house laws. That gave a period I think of approximately four months for rooming house operators to lodge their licences. Some got in very early in relation to that. There are at the moment around 880 licence applications that have been received. More than 750 of those licences have been granted. We are still working through the remainder of those licence applications ensuring they meet the bright-line test that has been set down by the legislation ...

That function is carried out by the Business Licensing Authority. There was a requirement that all of those licence applications be in by the end of August, and there was a significant lump of matters that arrived towards the end of that time frame. We are just working through those in a very detailed manner to make sure they meet the bright-line test. I cannot give you a precise date. I do know that a number of them raise some complexities that are required to be examined very carefully, and we are going through that process.²⁵⁶

²⁵³ This definition is provided in Consumer Affairs Victoria, *Rooming Houses: a Guide for Residents and Operators* (2017), p.8

²⁵⁴ Consumer Affairs Victoria, *Annual Report* (2017), p.24

²⁵⁵ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery*, (2016), p. 94

²⁵⁶ Mr Simon Cohen, Deputy Secretary, Regulation, Director of Consumer Affairs Victoria, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 13 February 2018, pp.22-23

FINDING 47: A new rooming house licensing system was introduced on 26 April 2017. At the end of 2016-17, 99 licences had been approved of the 1,184 rooming houses registered.

Illegal houses and operators are the responsibility of local government.

Disadvantaged students

In 2016-17, the Department of Education and Training advised the Committee that it had provided additional equity funding of \$158.5 million to better support students in greatest need.²⁵⁷

Disadvantaged students and the outcomes being achieved in the kindergarten, school and VET sectors were a recurrent theme at the public hearing with the Secretary and senior officers of the Department of Education and Training held on 15 February 2018.

The Committee was advised that the kindergarten participation rate for Aboriginal children increased from 82.2 per cent in 2015 to 90.5 per cent in 2016. The result was in part due to the pre-purchase by the Department of Education and Training of 569 kindergarten places for children who are either Aboriginal or known to child protection services.

The Secretary was asked about the outstanding ten per cent of Aboriginal children not participating in kindergarten, and their geographic location. The Secretary advised that:

We do not know absolutely where, but we do have the most dispersed Aboriginal population of any state in Australia. It is located quite differently to other states. We do have the *Marrung Aboriginal Education Plan*, which spans early childhood, schools and TAFE and higher education. I think it is the first comprehensive Aboriginal education plan for quite some time to set ambitious targets to increase participation. I am quite heartened by the increase in our Aboriginal early years participation rate, but I am completely committed to continuing so that it matches or exceeds the non-Aboriginal participation rate.²⁵⁸

The Committee also asked the Department about how the equity funding was allocated. The Deputy Secretary for the Early Childhood and School Education Group explained that:

... the equity funding was allocated on the basis of a school's socio-economic family and educational measure. So the schools with the most disadvantaged families received greater amounts of funding. That went as an amount into the school's student resource package and schools were supported with an evidence-based framework for improving student outcomes to decide how they might spend that money.²⁵⁹

²⁵⁷ Department of Education and Training presentation by the Secretary to the Public Accounts and Estimates Committee, 15 Feb 2018, p. 9

²⁵⁸ Ms Gill Callister, Secretary, Department of Education and Training, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2018, p.17

²⁵⁹ Ms Katy Haire, Deputy Secretary, Early Childhood and School Education Group, Department of Education and Training, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2018, p.22

For example, the Committee was advised that Benalla College has appointed an additional assistant principal and two extra leading teachers. Coaches have been engaged to help teachers use their data to better assess student learning needs and to improve their teaching practice.²⁶⁰ A behaviour analyst coach has been employed to engage with students as well as a specialist speech pathologist to deliver oral language programs. In contrast Roxburgh College engaged the Australian Research Council to deliver senior science programs to improve science engagement and understanding of particular students and focus on the participation of girls in senior physics and chemistry classes.²⁶¹

The Committee noted the fall in unemployed learners enrolled in higher education and skills in 2016-17 at the public hearing. According to the Department of Education and Training's *Annual Report 2016-2017* there was a decline of 22 per cent from 113,200 to 87,900 people.²⁶² The Department of Education and Training was asked at the hearing to explain this trend. The Committee was advised that unemployed learners may have been enrolled in courses that did not necessarily lead to employment or skills that were of sufficient quality and there has been a focus on improving the quality of service providers in the training market in 2016-17.²⁶³

The Department has also introduced a new program in 2016-17 called *Reconnect*. The Deputy Secretary of the Higher Education and Skills Group stated that the program:

... is specifically focused around supporting potential learners that are particularly early school leavers that perhaps need broader support across a range of wraparound services to enable them to participate in vocational education and succeed and connect up with jobs as well. *Reconnect* is a new program that has been rolled out through specialist third-party providers to enable that focus on that cohort. Certainly it is early days in terms of that program, but the feedback in the context of 16-17 was very positive.²⁶⁴

FINDING 48: The decline in unemployed learners enrolled in higher education and skills in 2016-17 may have been due to enrolments in some courses that were of deficient quality. The new *Reconnect* program will support early school leavers in vocational education.

The Committee will follow the educational outcomes of these disadvantaged cohorts with interest in light of the initiatives set out above.

²⁶⁰ Mr Bruce Armstrong, Deputy Secretary, Regional Services Group, Department of Education and Training, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2018, pp.23-24

²⁶¹ *ibid.*

²⁶² Department of Education and Training, *Annual Report 2016-2017* (2017), p.20

²⁶³ Ms Gill Callister, Secretary, Department of Education and Training, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2018, p.29

²⁶⁴ Mr David Latina, Deputy Secretary, Higher Education and Skills Group, Department of Education and Training, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2018, p.29

Legal and illegal brothels

Many sex workers today are among the most marginalised and stigmatised of populations everywhere.

When exploitation occurs in other professions, though, the job itself is not held to blame. When things go wrong with sex work, the entire industry is called to question. Workers in other industries are not expected to assume abuse comes with their job, or that their job shouldn't exist. Nor are they considered in need of rescuing.

Lisa Marie (not her real name), Victorian sex worker²⁶⁵

The Committee was advised of the Victoria Police Sex Industry Coordination Unit activities for December 2016 to December 2017.²⁶⁶ Over this time the unit:

- visited 20 of the 90 licensed brothels
- visited 126 illegal brothels
- charged seven offenders with a total of 53 offences²⁶⁷ mostly relating to illegal sex work
- executed five search warrants.

As a result of the Unit's work, five operations were shut down with a further three applications pending. An additional 11 operations were joint ones with departmental officials and others.

At the public hearing, the Police Commissioner explained to the Committee that at any one time there can be up to 400 illegal brothels operating. One of the challenges for Victoria Police is the temporary nature of such brothels:

... — here today and gone tomorrow-type operations—which is proving to be quite challenging for our staff in terms of particularly the welfare of people that are working in those places, because it is very hard to know when they are going to pop up and go. We do rely on a lot of intel about that, so that is proving to be quite a challenge.

Victoria Police and Councils have historically made relatively low estimates of the size of the illegal brothel industry.²⁶⁸

A 2009 study by CAV found that there are diverse and often conflicting definitions of unlicensed or illegal activities. It identified the four major forms of unlicensed or illegal activity. These are:

- add-on services to massage
- legal brothels operating in breach of regulations
- organised illegal brothels and escort agencies

²⁶⁵ Lisa Marie, 'Time to make sex work fully legal', *The Age: Opinion*, 4 March 2018, p.29

²⁶⁶ The data is collected by Victoria Police on a calendar rather than financial year basis.

²⁶⁷ The offences were not specified.

²⁶⁸ Mr Graham Ashton, Chief Commissioner of Police, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 13 February 2018, p.24

- exempt workers working outside the conditions of their exemption.²⁶⁹

There is therefore not a neat divide for the oversight of legal and illegal activity, which adds to the complexity of reducing harm to people, including children, in the industry. The Committee was advised by the Minister for Consumer Affairs, Gaming and Liquor Regulation, at the 2017-18 budget estimates hearings, that CAV regulates the licensed sex work industry whereas the illegal sex work industry is the purview of Victoria Police.

Another challenge for Victoria Police is gathering enough evidence to prosecute, as the Chief Commissioner explained to the Committee:

... while we suspect that they are an illegal operation and we can put pressure on the operation, actually having evidence to go to court requires to be able to prove that there is an illegal operation as opposed to just a massage-type operation going on. That is a real challenge for us. To get that evidence we would either have direct evidence of someone—a member of the public that may have been there, for example, and given evidence. That is hard to get as well, because of the nature of the evidence. That tends to be our biggest sticking problem.²⁷⁰

The Director of Consumer Affairs Victoria was asked at the public hearing why the Sex Work Ministerial Advisory Committee had not been operating in light of the ‘spate of massage parlours operating as illegal brothels’.²⁷¹ The Director advised that:

The role of Consumer Affairs Victoria in the context of sex work regulation focuses specifically on the legal part of the sector rather than the part that is operating unlawfully, where the primary policing responsibility falls on Victoria Police. In terms of the Committee itself, the government has not seen it as necessary to have the Committee formed to provide advice on specific matters, and hence the Committee has not been in operation over the past several years.²⁷²

The Committee was an independent statutory body. Its role included advising the Minister for Consumer Affairs about the issues related to the regulation, control and general operation of the sex work industry in Victoria.²⁷³

FINDING 49: Some of the challenges for Victoria Police in addressing illegal brothel activity and minimising harm include:

- the transitory nature of such brothels
- illegal activity undertaken in legal brothels
- gathering sufficient evidence to prosecute offenders.

²⁶⁹ Consumer Affairs Victoria, *Working in Victorian Brothels* (2009), p.38

²⁷⁰ Mr Graham Ashton, Chief Commissioner of Police, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 13 February 2018, p.24

²⁷¹ Hon. David Morris MP, Deputy Chair Public Accounts and Estimates Committee, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 13 February 2018, p.7

²⁷² Mr Simon Cohen, Deputy Secretary, Regulation, Director of Consumer Affairs Victoria, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 13 February 2018, p.6

²⁷³ <https://www.consumer.vic.gov.au/about-us/who-we-are-and-what-we-do/public-committees-and-boards/sex-work-ministerial-advisory-committee>, viewed 26 February 2018

6 Asset investment

Key findings

- Direct asset investment rose by 65.3 per cent to \$7.0 billion in 2016-17. This increase was a result of Government policy which accelerated a number of projects.
- The majority of direct asset investment for 2016-17 was made by the Department of Economic Development, Jobs, Transport and Resources on transport projects, the Department of Health and Human Services on hospital developments and housing and the Department of Education and Training on school infrastructure including asbestos removal.
- Estimated expenditure on public private partnership projects in 2016-17 was \$2.2 billion, 271.6 per cent higher than the previous year, and 93.5 per cent higher than the original budget estimate. When asked by the Committee how much departmental PPP projects contribute to the \$2.2 billion figure, only \$851 million, or 40 per cent, of project costs were disclosed by departments.
- The Government has not explained any significant growth or variance from earlier estimates of public private partnership project expenditure, despite supporting previous recommendations made by the Committee to do so.
- The rollout of the \$5.5 million *New Booze and Drug Buses (Statewide)* program was delayed over 2016-17 due to design and procurement issues.
- The total estimated investment for the *Conventional Signalling Upgrade – Caulfield to Dandenong* project was increased from \$360.0 million to \$608.3 million in 2016-17 and now forms part of the \$1.3 billion *High Capacity Metro Trains* project.
- High-capacity signalling uses technology to allow trains to run closer together along rail lines, thus increasing the number of trains operating on the network. High-capacity signalling on the Dandenong rail corridor is now expected to come into operation by 2026. The installation of high-capacity signalling across the rest of the Melbourne metropolitan rail network has not yet been determined.
- Despite a record level of transport-related infrastructure asset investment in 2016-17, there is currently no overarching transport plan for Victoria, nor timeframe for formulating one.

6.1 Introduction

This chapter examines the investment in new infrastructure and other physical assets made by the Government over 2016-17. In addition to presenting the outcomes of government infrastructure investment, the nature and level of capital repatriations made by the public non-financial corporations (PNFC) sector to the Government is also discussed.

The Government is currently undertaking a number of large scale transport infrastructure projects. The funding, roll out and impact of these projects are discussed throughout this chapter. The final section analyses some of the issues raised by the Committee at the public hearings relating to transport, specifically:

- road safety
- transport infrastructure – rail signalling
- transport planning.

6.2 Infrastructure investment

Total government infrastructure investment in 2016-17 was \$9.1 billion, a \$4.3 billion (91.5 per cent) increase over investment in 2015-16, and \$1.6 billion higher than originally anticipated.²⁷⁴

Government infrastructure investment has three major components:

- direct asset investment, net of asset sales²⁷⁵
- investment through other sectors²⁷⁶
- estimated expenditure on public private partnership (PPP) projects.²⁷⁷

These components are shown in Table 6.1.

In 2016-17, the Government invested \$6.9 billion in infrastructure.²⁷⁸ This comprised \$7.3 billion in direct asset investment, offset to a small extent by \$287 million in asset sales and \$134 million of investment in other sectors. In addition \$2.2 billion was invested in PPP projects.²⁷⁹

²⁷⁴ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.10; Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.10; Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.15

²⁷⁵ Known in the budget papers as 'net cash flows from investments in non-financial assets'.

²⁷⁶ Known in the budget papers as 'net cash flows from investments in financial assets for policy purposes'.

²⁷⁷ Known in the budget papers as 'PPP infrastructure investment', or 'estimated cash outflows for Partnership Victoria projects'.

²⁷⁸ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.134

²⁷⁹ Calculated by elimination.

Table 6.1 Components of government infrastructure investment, 2016-17

	2015-16 actual	2016-17 Budget	2016-17 actual	Growth 2015-16 to 2016-17		Variance from 2016-17 Budget	
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(per cent)	(\$ million)	(per cent)
Direct asset investment	4,419.7	7,206.2	7,278.2	2,858.5	64.7	72.0	1.0
Asset sales	190.0	486.7	286.9	96.9	51.0	-199.8	-41.1
Investment through other sectors	-92.6	-391.0	-134.0	-41.4	44.7	257.0	-65.7
Estimated cash outflows for Partnership Victoria projects ^(a)	590.9	1,134.7	2,195.7	1,604.8	271.6	1,061.0	93.5
Government infrastructure investment	4,728.0	7,463.2 ^(b)	9,053.0	4,325.0	91.5	1,589.8	21.3

(a) Calculated by elimination. Known in the budget papers as 'PPP Infrastructure Investment'.

(b) This figure is from the printed version of the budget papers.

Sources: Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.32; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.9; Department of Treasury and Finance, *Net Infrastructure Investment* (2017).

6.2.1 Direct asset investment

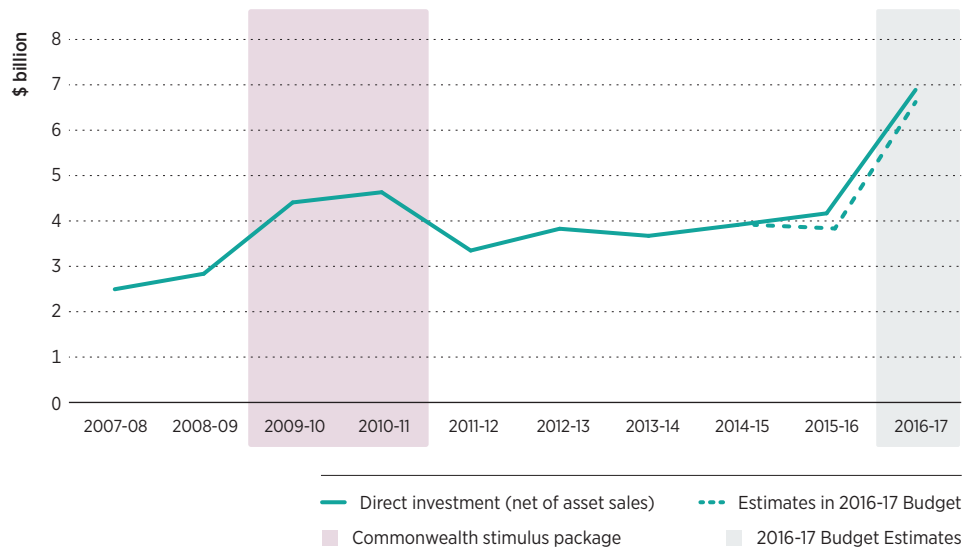
Direct asset investment involves the Government constructing or purchasing an asset through a department or some other general government sector entity. For 2016-17, direct asset investment (less asset sales) was \$7.0 billion. This was a growth of \$2.8 billion (65.3 per cent) over 2015-16.²⁸⁰ It was also \$271 million (4.0 per cent) higher than had been anticipated in the 2016-17 Budget.²⁸¹

Figure 6.1 shows that direct asset investment has increased substantially during certain years over the last decade. The above-trend investment in 2009-10 and 2010-11 was a result of a Commonwealth stimulus package, and on completion the level of direct investment returned to trend. The 2016-17 increase is a result of Government policy, with a deliberate increase in debt (as a proportion of GSP) enabling a number of asset investment projects to be accelerated.

²⁸⁰ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.32

²⁸¹ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.9

Figure 6.1 Direct asset investment, 2007-08 to 2016-17



Source: Department of Treasury and Finance, *Consolidated Cash Flow Statement – General Government Sector* (2017)

FINDING 50: Direct asset investment rose by 65.3 per cent from 2015-16 to reach \$7.0 billion in 2016-17. This increase was a result of Government policy which accelerated a number of projects.

Direct asset investment expenditure by department

The Department of Treasury and Finance breaks down direct asset investment into departments and agencies. This is shown in Figure 6.2.

Figure 6.2 Direct asset investment by department, 2016-17^(a)



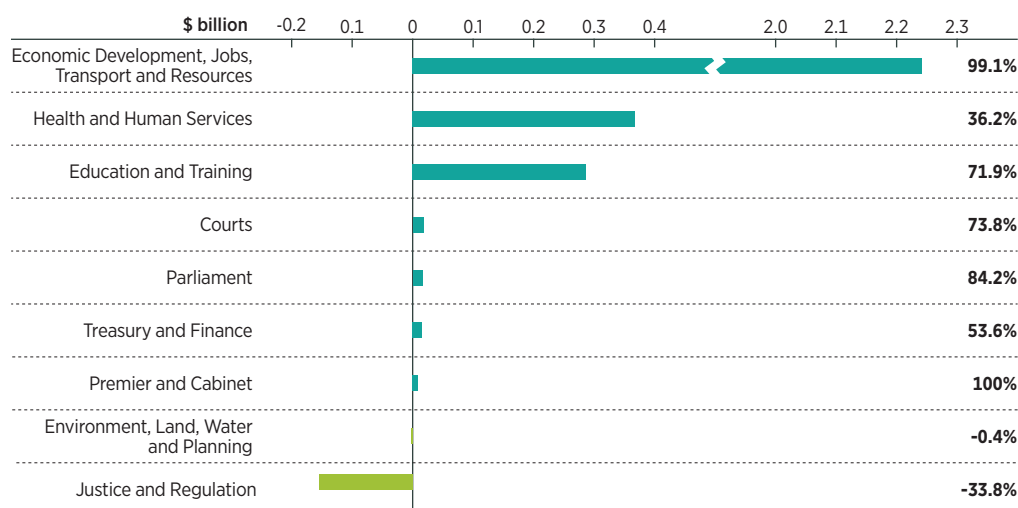
- (a) Figure will not add up due to rounding.
- (b) 'Other' includes regulatory bodies and other part-funded budget agencies that are not allocated to departmental portfolios.

Source: Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.46

In 2016-17 the Department of Economic Development, Jobs, Transport and Resources had the highest direct asset investment expenditure of all departments and agencies, worth \$4.5 billion. This expenditure was driven by large scale infrastructure projects such as the *Level Crossing Removal Program (Metro Various)*, the *Melbourne Metro Tunnel (Metro Various)* project and *High Capacity*

Metro Trains. Figure 6.3 shows the 2016-17 expenditure for the Department was \$2.2 billion or 99.1 per cent higher than the previous year. Transport projects and planning are discussed later in this chapter.

Figure 6.3 Direct asset investment, growth between 2015-16 and 2016-17



Source: Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.46

The Department of Health and Human Services spent \$1.4 billion on asset investment projects over 2016-17, an increase of \$368 million (36.3 per cent) over the previous year. The asset investment made by the Department over the year was driven by large hospital development projects such as:

- the *Latrobe Regional Hospital Redevelopment – Stage 2A (Latrobe)*, whereby \$43.6 million was spent on the project during 2016-17. The \$73.0 million total estimated investment (TEI) project is now complete²⁸²
- the *Monash Children’s Hospital (Clayton)*, a \$217 million TEI project that expended \$70.4 million over 2016-17.²⁸³

Within the Department of Health and Human Services, the Director of Housing spent \$48.7 million in 2016-17 on the *Rapid Housing Fund (Statewide)* project, whereby 184 dwellings have been procured to provide stable housing for people experiencing homelessness.²⁸⁴

The Department of Education and Training also increased its asset investment expenditure considerably, with the \$686 million spent over 2016-17, \$287 million (71.9 per cent) more than the previous year. This included \$41.2 million on various asbestos removal projects²⁸⁵, \$51 million on land acquisition in growth areas and

²⁸² Department of Health and Human Services, *Response to the Committee’s 2016-17 Financial and Performance Outcomes General Questionnaire*, received 6 November 2017, p.15

²⁸³ *ibid.*, p.17

²⁸⁴ *ibid.*, p.29

²⁸⁵ Department of Education and Training, *Response to the Committee’s 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, pp.5, 28

other sites around the State for future school campuses²⁸⁶ and \$52 million on the *Relocatable classroom - new procurement and major refurbishment of relocatable buildings (statewide)* program.²⁸⁷

FINDING 51: The majority of direct asset investment for 2016-17 was expended by the Department of Economic Development, Jobs, Transport and Resources on transport projects, the Department of Health and Human Services on hospital developments and housing and the Department of Education and Training on school infrastructure including asbestos removal.

6.2.2 Investment through other sectors

Another avenue in which the Government can invest in assets is through public entities in other sectors, such as the public non-financial corporations (PNFC) sector. In this form of asset investment, the Government provides a capital contribution to a business entity such as VicTrack rather than directly funding the project itself. The entity then funds, owns and manages the project.

This form of Government investment appears in the State's financial statements under 'net cash flows from investments in financial assets for policy purposes'.²⁸⁸ The *2016-17 Financial Report* by the Department of Treasury and Finance shows both cash inflows and outflows for this item, but the budget papers combine both cash flows into a net figure.

For 2016-17, investment through other sectors resulted in a net cash inflow of \$134.0 million, indicating a net disinvestment in other sectors. This was \$41.4 million (44.7 per cent) more than last year's net inflow of \$92.6 million.²⁸⁹ In comparison to the 2016-17 budget estimate, the net cash inflow was \$257.0 million (65.7 per cent) lower than anticipated.²⁹⁰

With respect to the \$134.0 million net cash inflow, the Department of Treasury and Finance advised the Committee that:

This balance includes general government sector financial contributions to other public sector entities (such as VicTrack or water bodies) for capital purposes. It also includes any expected proceeds from planned divestment of government businesses (such as the Port of Melbourne) which are commercially sensitive and certain other movements between sectors of government.²⁹¹

²⁸⁶ *ibid.*, p.13

²⁸⁷ *ibid.*, p.27

²⁸⁸ The 'investments in financial assets' indicates the investment is an equity injection rather than a direct investment (which would be in 'non-financial assets').

²⁸⁹ Department of Treasury and Finance, *2016-17 Financial Report* (2017), p.32

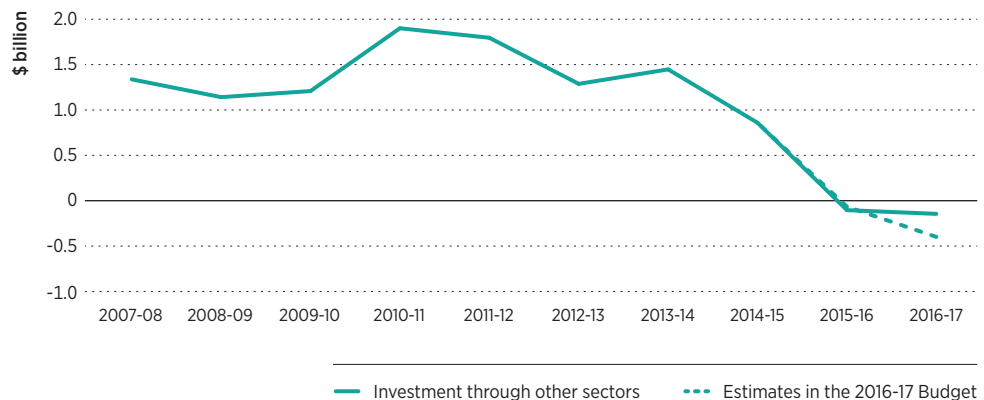
²⁹⁰ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.9

²⁹¹ Department of Treasury and Finance, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 13 November 2017, p.17

The Committee notes that the relatively small net cash flow is dominated by very large gross cash flows in both directions,²⁹² with the gross cash outflow being 83 times the size of the net cash flow figure.²⁹³ The Department of Treasury and Finance advised the Committee that five individual transactions above \$100 million made up the bulk of the gross cash flows. They were:

- a cash inflow of \$8.9 billion being the proceeds of the Port of Melbourne lease remitted from the Port Lessor on receipt from the Lonsdale Consortium
- a cash outflow of \$9.7 billion advanced to the Port Lessor²⁹⁴
- cash inflow of \$1.5 billion being the year's repayment of the advance to the Port Lessor
- a cash outflow of \$150 million to Goulburn-Murray Water for the *Connections Project*
- a cash outflow of \$125 million for grants and loans for rural assistance.²⁹⁵

Figure 6.4 Investment through other sectors, 2007-08 to 2016-17



Source: Department of Treasury and Finance, *Consolidated Cash Flow Statement – General Government Sector (2017)*

Figure 6.4 shows results for investment through other sectors over the last decade. After a peak cash outflow of \$1.9 billion in 2010-11, investment through other sectors has fallen significantly and has been in a net cash inflow position for the last two years. This is in contrast to the trends for both direct investment and asset provision through PPP projects, which have both increased in recent years (see Figures 6.1 above and 6.5 below).

FINDING 52: Net investment through other sectors was a disinvestment of \$134.0 million, the second disinvestment in the last two years. This continues a trend away from investing through other sectors as a form of Government asset investment.

²⁹² A cash flow out of the general government sector of \$11.1 billion and a cash flow into the sector of \$11.3 billion.

²⁹³ Department of Treasury and Finance, *2016-17 Financial Report (2017)*, p.32

²⁹⁴ The Government accepted a \$9.7 billion advance (that is, the 'Port Lessor Loan Facility') from the Melbourne Port Lessor during 2016-17. The funds were from the lease of the operations of the Port of Melbourne, and until such time as the Government requires the funds for level crossing removals and other transport infrastructure projects, it will have the effect of lowering net debt. The impact on the port lease transaction on net debt is discussed in section 4.3.

²⁹⁵ Department of Treasury and Finance, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 13 November 2017, p.18

6.2.3 Estimated expenditure on public private partnership projects

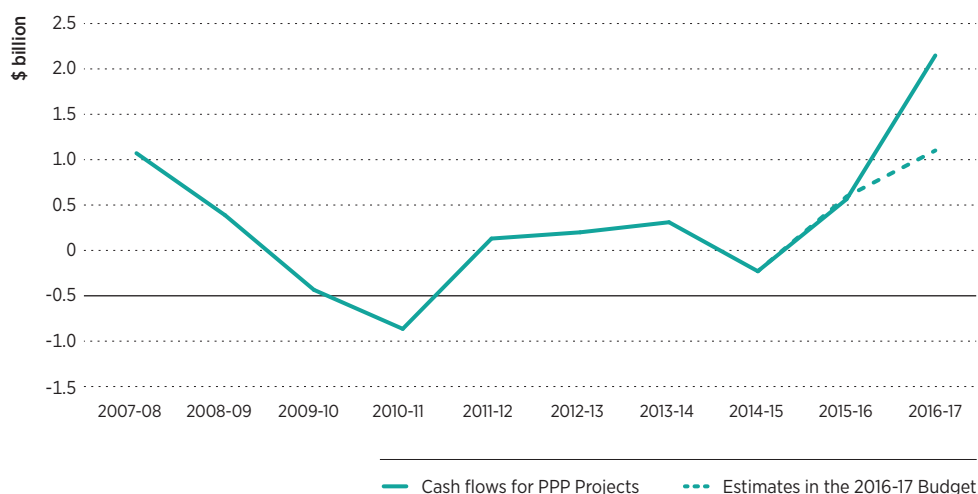
The third component of government infrastructure investment is the amount spent on PPP projects. Under PPP contracts, the Government forms a partnership with a private sector provider to build, and in some instances operate, an infrastructure asset on behalf of the State. The amount of invested in PPP projects under construction each year is not required to be disclosed, however the Government does provide an estimate of private sector investment using a cash flow model.²⁹⁶

Expenditure on public private partnership projects in 2016-17

For 2016-17, the Committee calculates estimated expenditure on PPP projects to be \$2.2 billion, a \$1.6 billion (271.6 per cent) growth on 2015-16.²⁹⁷ This is also \$1.1 billion (93.5 per cent) higher than the estimate included in the budget papers.²⁹⁸

Figure 6.5 below shows the estimated expenditure on PPP projects over the last decade.

Figure 6.5 Estimated expenditure on PPP projects, 2007-08 to 2016-17



Source: Committee calculations based on Department of Treasury and Finance, *Net Infrastructure Investment* (2017).

The Committee asked departments to determine how their projects contributed to the \$2.2 billion spent on PPP projects during 2016-17. The following table shows the contributions of various PPP projects under construction to the total estimates expenditure on PPPs in 2016-17.

²⁹⁶ Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Questionnaire*, received 8 May 2017, p.52

²⁹⁷ Committee calculations based on Department of Treasury and Finance, *Consolidated Cash Flow Statement – General Government Sector* (2017).

²⁹⁸ Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.15

Table 6.2 PPP projects contributing to the total expenditure on PPP projects for the State, 2016-17

PPP Project under construction	Contribution by this project to estimated cash outflows for Partnership Victoria projects for 2016-17 (\$ million)
<i>Bendigo Hospital</i>	14
<i>Ravenhall Prison</i>	110
<i>CityLink – Tulla Widening – Section 3</i>	373
<i>New Schools PPP</i>	180
<i>High Capacity Metro Trains</i>	174
Total	851

Sources: Department of Treasury and Finance, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, pp.13-14

The Committee notes that the contributions of the projects provided by the Department of Treasury and Finance cover less than 40 per cent of the estimated expenditure on PPP projects reported in the *2016-17 Financial Report*. It is unclear to the Committee which other PPP projects make up the balance of PPP projects expenditure.

FINDING 53: Estimated expenditure on public private partnership projects in 2016-17 was \$2.2 billion, 271.6 per cent higher than the previous year, and 93.5 per cent higher than the original budget estimate. When asked by the Committee how much departmental public private partnership projects contribute to the \$2.2 billion figure, only \$851 million, or 40 per cent, of project costs were disclosed by departments.

Changes to estimated expenditure on public private partnership projects over 2016-17

A number of significant revisions were made to estimated expenditure on PPP projects for 2016-17. The estimate of \$1.1 billion for year in the original budget estimate (handed down in May 2016) was increased to \$1.7 billion in the *2016-17 Budget Update* (released on December 2016) and \$2.8 billion at the time of the 2017-18 Budget announcement in May 2017.

The Committee considers that these modifications to expenditure estimates are significant, both as costs to the State and also as a matter of public interest. The Committee notes that as estimated expenditure on PPP projects is not explicitly published in the budget papers, there is no opportunity for the Government to provide reasons for the estimated growth in expenditure on PPP projects or why it varies so significantly from original expectations.

The Committee has made a number of recommendations related to explaining such growth and variances in the past.²⁹⁹ For example, as part of a previous report, the Committee recommended that:

²⁹⁹ Other recommendations include: Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendations 50, 53, pp.170, 173; Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), Recommendation 4, p.81

Future Annual Financial Reports include an actual result or an updated estimate of the value of asset investment carried out by the private sector on public private partnership projects during the year. Significant variations from this figure and the initial estimate of public private partnership infrastructure investment should be explained.³⁰⁰

The Government supported this recommendation, commenting that:

An updated estimate of the value of asset investment carried out by the private sector contractor during the year will be provided in the AFR, as part of Government Infrastructure Investment, based on the best available information in the context of current contractual arrangements.³⁰¹

The Committee notes that in this response, the Government has only committed itself to providing updated estimates of the broader government infrastructure investment figure, and not its components. Further, it has not committed itself to explaining significant variances between estimates provided in the budget papers and those provided in the Annual Financial Report.

The Committee considers that such explanations are critical to the principle of accountability to the Parliament and the community. Therefore, the Committee considers that the Government has an opportunity to improve its accountability with respect to PPP investment.

FINDING 54: The Government has not explained any significant growth or variance from earlier estimates of public private partnership project expenditure, despite supporting previous recommendations made by the Committee to do so.

RECOMMENDATION 5: Future budget papers, including the Annual Financial Report provide, for any item of the State's finances, including estimated expenditure on public private partnership projects, a detailed explanation for:

- (a) significant expected or actual growth from one year to the next, or
- (b) significant variance of actual outcome (or updated estimate) against the previous estimate including from the original budget estimate, where 'significant' is over \$1.0 billion, or more than 50 per cent for any item with a value over \$200.0 million.

³⁰⁰ Public Accounts and Estimates Committee, *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes* (2014), Recommendation 8, p.54

³⁰¹ Victorian Government, *Government Response to PAEC's Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, tabled 9 November 2016, p.3. The Government also noted that it would further consider financial disclosures for PPPs once the Australian Accounting Standards Board issues a new relevant accounting standard.

6.3 Capital repatriations

From time to time, the Government requires cash distributions from State-owned enterprises. The most common way this is achieved is through dividend payments, which are intended to be based on net profit after tax made by Government business entities.³⁰² These payments are discussed in Chapter 3 on revenue.

However, other ad hoc payments to the Government are available. In its *Report on the 2017-18 Budget Estimates*, the Committee noted that the Transport Accident Commission (TAC) is expected to make a \$505 million grant to the Government during 2017-18.³⁰³ The Auditor-General advised the Committee that this payment was classified as a grant and not a dividend because the TAC made a loss in 2016-17, and had accumulated deficits and no contributed capital on which to draw.³⁰⁴

In addition to dividends and grants, a third avenue exists for Government requests for cash from other sectors. Under Section 12 of the *State Owned Enterprises Act 1992*, the Government can require capital repayments,³⁰⁵ also referred to as 'capital repatriations'.³⁰⁶

Similar to dividends, amounts of capital repatriation to be distributed to the Government are determined by the Treasurer after consultation with the relevant board and minister.³⁰⁷

During 2015-16, the Committee is aware of capital repatriations from eight State-owned enterprises, totalling \$583.6 million. For 2016-17, the Committee is aware of only three payments totalling \$61.8 million.³⁰⁸ Table 6.3 shows capital repatriations made by Government business enterprises during 2015-16 and 2016-17.

³⁰² Department of Treasury and Finance, *Corporate Planning and Performance Reporting Requirements: Government Business Enterprises* (2009), Section 7.1

³⁰³ Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates*, (2017), pp.65-7

³⁰⁴ Correspondence from Mr Andrew Greaves, Auditor-General, to Chair, Victorian Parliament Public Accounts and Estimates Committee, received 29 August 2017

³⁰⁵ Department of Treasury and Finance, *Corporate Planning and Performance Reporting Requirements: Government Business Enterprises* (2009), Section 7.2.1

³⁰⁶ For example, Hon. Robin Scott MP, Minister for Finance, *2017-18 Budget Estimates Transcript of Evidence*, 2 June 2017, p.18

³⁰⁷ *State Owned Enterprises Act 1992* (Vic), ss.12-13

³⁰⁸ State-owned Entities, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, Question 23

Table 6.3 Capital repatriation payments by Government business entity

	Payments made in 2015-16 (\$million)	Payments made in 2016-17 (\$ million)
PNFC entities		
State Electricity Commission of Victoria	125.0	30.0
Development Victoria	28.0	2.3
City West Water	6.6	-
Yarra Valley Water	8.6	-
South East Water	13.1	-
Melbourne Water	27.8	-
PFC entities		
Victorian Managed Insurance Authority	296.5	-
Transport Accident Commission	78.0	29.5

Sources: General questionnaire responses from TAC; City West Water; Development Victoria; Melbourne Water; Victorian Managed Insurance Authority; WorkSafe; Yarra Valley Water, South East Water

The Committee asked entities about the effect the payments made over 2015-16 and 2016-17 had on the enterprise. Development Victoria responded that there had been a ‘cash outflow and decrease in equity’ as a result of the repatriation payment.³⁰⁹ City West Water advised the Committee that the payment had had an ‘impact on cash levels and retained profits’,³¹⁰ but did not provide further details.

The Committee considers that capital repatriations and dividends are similar in nature as:

- the two payments are ad hoc, meaning they may or may not occur in any one year
- amounts paid are the result of a negotiation between the Treasurer and the enterprise
- payments flow to the general government sector from another sector.

Due to these similarities, the Committee considers that it would be appropriate to have similar levels of transparency surrounding both payments.³¹¹

³⁰⁹ Development Victoria, *Response to the Committee’s 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, p.12

³¹⁰ City West Water, *Response to the Committee’s 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.10

³¹¹ The Committee has also recently recommended that the Government provide a similar level of detail on non-dividend grants in the budget papers as it does with dividends (Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), Recommendation 4, p.67). The Government’s response is expected in April 2018.

In the *Report on the 2017-18 Budget Estimates* tabled in September 2017, the Committee discussed the lack of detail in the *Corporate Planning and Performance Reporting Requirements: Government Business Enterprises* on dividend payments and recommended the guidance document (dated 2009) be updated, with the new version of the document containing ‘a more detailed explanation of the Government’s dividend policy’.³¹²

Currently the guidance in the *Corporate Planning and Performance Reporting Requirements: Government Business Enterprises* on capital repatriations is briefer than the guidance provided for dividend payments.³¹³

The Committee also considers that setting out intended capital repatriations at the time of the budget would be a significant improvement in transparency, as it would show what the Government intends for its business enterprises during the year. Similarly, reporting the outcomes of capital repatriation payments made at the end of the year in the Annual Financial Report would be an advance on the current level of disclosure.

FINDING 55: Entities in both the public financial corporations and public non-financial corporations sectors have made capital repatriation payments to the Government during 2015-16 and 2016-17. Capital repatriation payments are similar in nature to dividend payments, but are not reported to the same level of detail in either the budget papers or the Annual Financial Report.

FINDING 56: Government guidance for departments and business enterprises on capital repatriation payments is not as expansive as guidance on dividend payments, despite these items being similar in nature.

RECOMMENDATION 6: Future budget papers and Annual Financial Reports disclose intended and actual capital repatriation payments made by the public financial corporations and public non-financial corporations sectors in a similar way to which dividends are currently reported.

RECOMMENDATION 7: The Government update the 2009 *Corporate Planning and Performance Reporting Requirements for Government Business Enterprises* document, including a summary of the Government’s policy on capital repatriation payments.

³¹² Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates*, (2017), Recommendation 22, p.188

³¹³ The guidance on capital repayments states: ‘In line with specific legislative provisions, the Treasurer, after consultation with the Board and, where applicable, the relevant portfolio Minister, can direct a GBE to repay capital to the State if appropriate’. (Department of Treasury and Finance, *Corporate Planning and Performance Reporting Requirements: Government Business Enterprises* (2009), Section 7.2.1)

6.4 Asset investment issues discussed at the public hearings

The following section discusses some of the issues and programs related to the Government's asset investment expenditure over 2016-17 that were raised by Committee members at the inquiry public hearings held in February 2017. The topics are:

- road safety
- transport infrastructure — rail signalling
- transport planning.

6.4.1 Road safety

In May 2016, the Government launched the *Towards Zero 2016-2020: Victoria's Road Safety Strategy Action Plan*. The aim of the strategy and plan is to create:

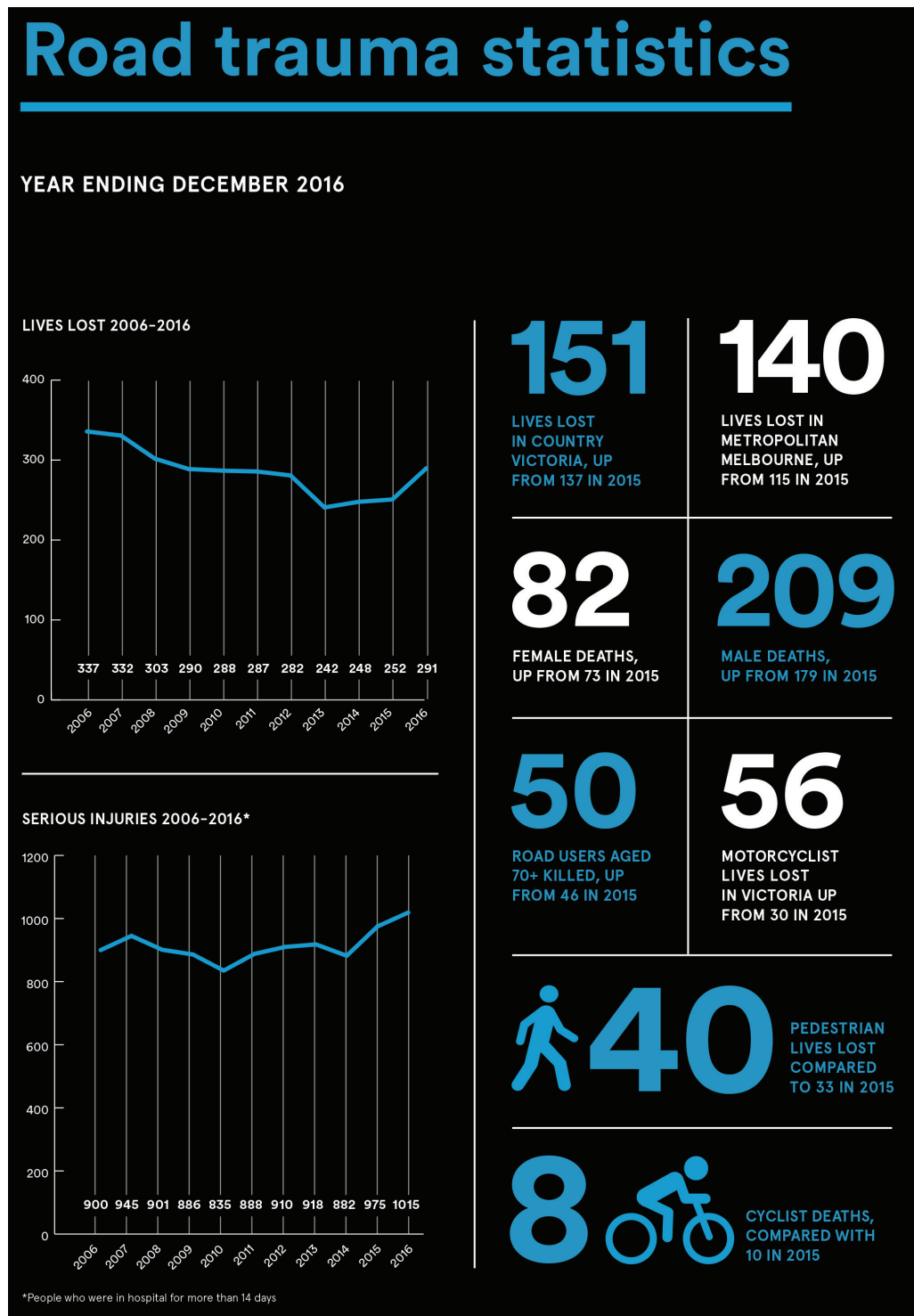
... a safety system for all Victorians – this means safe roads and roadsides, safe speeds, safe vehicles and safe road use by all people using the road.³¹⁴

A progress review of the strategy is scheduled for early 2018. One billion dollars is being invested, and the aim is to reduce roads deaths to 200 or below by 2020 and reduce serious injuries by 15 per cent within five years.

In 2016 roads deaths totalled 291 people, up from 252 people in 2015. In 2016 serious injuries were experienced by 1,015 people, up from 975 people in 2015. The results from the TAC's annual report are presented in Figure 6.6.

314 *Towards Zero 2016-2020: Victoria's Road Safety Strategy Action plan* (2017), available at <<https://www.towardszero.vic.gov.au/what-is-towards-zero/road-safety-action-plan>>, viewed 28 February 2018

Figure 6.6 Extract from Transport Accident Commission's 2016-17 Annual Report- A Better Way



Source: Transport Accident Commission, 2016-17 Annual Report: A Better Way (2017), p.13

In 2016-17 the TAC invested \$119 million in 194 projects to improve safety on Victorian roads.³¹⁵ Other funds were committed through the 2016-17 Budget towards improving the condition of metropolitan, rural and regional roads.³¹⁶

Two types of road safety assets were discussed at the public hearings. They were:

- the roll-out of flexible barrier systems
- drug buses.

Flexible barrier systems

The Committee asked the CEO of VicRoads about the introduction of wire safety barriers along high-risk rural and regional roads and the outcomes for motorcycle safety and reducing the severity of off-road collisions.³¹⁷ The Acting CEO of VicRoads, Mr Peter Todd, advised that:

We know that Victorians are more likely to be seriously injured or die on our rural roads, and that is why the government is investing a significant amount on some of these high-risk rural roads.

Part of that strategy is to implement flexible wire-rope barriers, audio-tactile line marking, wide centre lines and other treatments to improve road safety. This is based on the Safe System principles. Road safety barriers are there to redirect vehicles back onto the road. We know that the human body can only tolerate a certain g-force or impact, and we know that people make mistakes. So this strategy is about providing an infrastructure that is more sympathetic to people who make errors. We know that this infrastructure has been invested in in Victoria for nearly 30 years.

... but what we are seeing now is a transformational program on our highest risk rural roads, where we are providing continuous barriers.³¹⁸

The outcomes of the barriers for road users were further discussed at the hearing on 14 February 2018. The Acting CEO of VicRoads advised the Committee that:

- the barriers will prevent 85 per cent of run-off-road crash serious injuries or fatalities or head-on serious crash injuries or fatalities where there is a centre barrier and lives will be saved as a result
- one of the SES units on the Hume Freeway have advised that since the installation of barriers, SES call-outs onto the Hume have been reduced by 50 per cent
- the evidence shows that wire rope safety barriers reduces the incidence of motorcycle crashes by 40 to 50 per cent.³¹⁹

³¹⁵ Transport Accident Commission, *Annual Report 2016-17: A Better Way* (2016) p.5

³¹⁶ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), pp.48-49

³¹⁷ Mr Peter Todd, Acting CEO, VicRoads, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.27

³¹⁸ Ibid.

³¹⁹ Ibid, p.27-28

Drug buses

According to the *Towards Zero* campaign website, drug driving is a serious road safety issue with 41 per cent of all drivers and motorcyclists killed in the last five years found to have drugs in their system.³²⁰ The Strategy states that ten new purpose-built buses will more than double the number of drivers drug tested to 100,000 tests a year, making it much more likely law-breakers will be deterred or caught.³²¹ In 2016-17, New South Wales Police drug tested 101,458 drivers roadside.³²²

In the Department of Justice and Regulations' response to the Committee's general questionnaire, the Department advised that there have been delays to the prototype testing of new booze and drug buses.³²³ The Committee was advised that:

This [delay] has had a flow-on effect against the set delivery timeframe and the Drug and Booze Bus build. It is important to note that this project delay has no impact on Victoria Police's current operational capabilities.³²⁴

Although \$5.5 million was budgeted to be spent on the new buses in 2016-17, only \$1.0 million was expended.³²⁵

The Committee asked the Chief Commissioner of Police at the hearing on 13 February 2018 why new 'bespoke' buses, rather than 'off the shelf' ones, were needed given that New South Wales Police already has smaller drug buses employed as part of its fleet. The Chief Commissioner stated that:

What the intel has been telling us for some time is we need to augment that [large bus fleet] with a smaller fleet, stuff that does not have to be on a massive highway and freeway—to get off the freeways and be able to deliver those services off the freeways. Because of the size of the bus there are only certain places you can put them, even on the freeways. So for us it is having a smaller fleet. We did look at, in terms of what you said, bespoke, but it is a smaller fitted-out bus. It will get the same job done but it is about one-third of the size of the current buses.³²⁶

The Committee learned the delivery of the first bus was delayed, delivered on 28 February 2018, instead in 2016-17 as originally planned. The reason for the delay was not only related to the bespoke design but also the procurement process:

³²⁰ <https://www.towardszero.vic.gov.au/campaign/drug-driving>, accessed 28 February 2018

³²¹ Victorian Government, *Towards Zero 2016-2020: Victoria's Road Safety Strategy and Action Plan* (2016), p.18

³²² New South Wales Police Force, *Annual Report 2016-17* (2017) p.10

³²³ Department of Justice and Regulation, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, pp.13-14

³²⁴ *ibid*, p.14

³²⁵ Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p. 56

³²⁶ Mr Graham Ashton, Chief Commissioner of Police, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 13 February 2018, pp.32-33

Part of the delay ... was around the procurement. I think there were some issues with their procurement arrangements and with the contractor and the company. The company changed structure or there was an issue with the company originally, so that meant that we had to renegotiate the contract. That was one of the reasons. It was not all about the design of them, but that was one of the reasons for the delay.³²⁷

FINDING 57: The rollout of the \$5.5 million *New Booze and Drug Buses (Statewide)* program was delayed over 2016-17 due to design and procurement issues.

6.4.2 Transport infrastructure – rail signalling

Signalling is the system used on railways that ensures trains run along rail lines unimpeded, avoiding backlogs and collisions, much like the traffic signalling system for roads. ‘High-capacity signalling’ (HCS) is the term used for updated signalling systems that use technology to allow trains to run closer together on rail lines, and thus more often. Most of the delays on the existing rail system in Melbourne are due to signalling failures. In 2015, it was reported that a Metro trains audit found ‘much of the signalling equipment on the network is antiquated and presents significant impact potential on the network’s performance’.³²⁸ Some of the existing signalling in place across the Melbourne train network is more than 100 years old³²⁹, and a series of signalling maintenance and upgrade projects took place over 2016-17 across various lines in the metropolitan rail system.³³⁰

In 2015-16 the Government announced two asset investment projects related to improving signalling. They were:

- the *Conventional Signalling Upgrade – Caulfield to Dandenong* project, a \$360 million TEI project originally scheduled over 2015-16 to 2018-19
- the *Trial of High-capacity Signalling – Stage 1* project, which had a \$55.6 million TEI and was initially budgeted to take place between 2015-16 and 2017-18.³³¹

The 2015-16 budget papers stated the *Conventional Signalling Upgrade – Caulfield to Dandenong* project ‘will be upgraded to improve the safety, capacity and reliability of Melbourne’s busiest line.’³³² The budget papers also stated the *Trial of High-capacity Signalling – Stage 1* project:

... has the potential to increase the capacity, reliability and availability of the metropolitan rail network by using technology to enable trains to safely travel closer together. The trial is aimed at testing the use of HCS systems ahead of potential wider application on the metropolitan network.³³³

³²⁷ *ibid.*, p.33

³²⁸ Adam Carey, Clay Lucas, ‘Exclusive: the six problems ruining Melbourne’s rail network’, *The Age*, 23 July 2015

³²⁹ *ibid.*

³³⁰ For example, the Hurstbridge Sandringham and South Morang lines over November and December 2016. (<https://www.metrotrains.com.au/rail-maintenance-work-2016>)

³³¹ Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.37

³³² *ibid.*, p.39

³³³ *ibid.*, p.45

The Committee learned in the public hearings that the budget, timeframes and scope for both these signalling upgrade projects has changed since they were first announced due to their inclusion in the other large-scale transport infrastructure projects of *High Capacity Metro Trains* (TEI of \$1.3 billion at the time of the 2017-18 Budget), *Melbourne Metro Tunnel (Metro Various)* (TEI of \$11.0 billion) and the *Level Crossing Removal Program (Metro Various)* (current TEI of \$6.8 billion).³³⁴

Conventional signalling upgrades

Although \$45.0 million of the \$360.0 million TEI *Conventional Signalling Upgrade – Caulfield to Dandenong* project was due to be expended in 2015-16, no project funds were expended that year ‘due to timing associated with contract award and the scope of the project’.³³⁵ For 2016-17, the Committee was informed \$256.3 million was spent against an original budget for the year of \$102.0 million as ‘the 2016-17 spend of the \$248.281 million investment for power and associated infrastructure works, [was] initially reported as part of *High Capacity Metro Trains* [project]’.³³⁶ Further project changes reported to the Committee include:

- bringing forward the original completion date of quarter 4 in 2018-19 by six months ‘due to works now being delivered in line with the level crossing removal program’³³⁷
- increasing the project TEI from \$360.0 million to \$608.3 million due to ‘TEI incorporating \$248.3 million for power and associated infrastructure works initially reported as part of *High Capacity Metro Trains*’.³³⁸

At the public hearings, the Committee was informed of the changes to the *Conventional Signalling Upgrade – Caulfield to Dandenong* project, including the impact of running existing V/Line, metro and freight services on the line and the limitations of conventional signalling when the new high capacity trains come into operation. The CEO of Public Transport Victoria explained:

The work that is happening right now on the Caulfield–Dandenong corridor is the upgrade of the entire signalling system. We need to do that for a number of reasons. One is some of the signalling is quite old and therefore needs to be upgraded. We are in the corridor anyway, we thought we would upgrade it ... Secondly, it is an upgrade and a replacement of our conventional signalling system, so we will continue to have an upgrade of the basic conventional signalling system on the entire Caulfield–Dandenong corridor. That will continue. That will allow the introduction or maintain the existing operation of V/Line trains, the existing Metro train fleet, as well as the freight services that run up and down the corridor. It will make that signalling system more reliable and more effective.

³³⁴ Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee’s 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, pp.15, 28, 30

³³⁵ *ibid.*, p.26

³³⁶ *ibid.*, p.27

³³⁷ *ibid.*

³³⁸ *ibid.*

What it will also do is enable the introduction of high capacity metro trains running with conventional signalling, so when the first trains are introduced at the very end of this year and in service next year they will run with conventional signalling on that upgraded corridor. So we have had to do a lot of work to ensure that the new conventional signalling system on that corridor is also aligned with the longer HCMT and the change to platform links et cetera. It also provides the base infrastructure for when we roll out high capacity signalling in a number of years time on that corridor.³³⁹

FINDING 58: The total estimated investment for the *Conventional Signalling Upgrade – Caulfield to Dandenong* project was increased from \$360.0 million to \$608.3 million in 2016-17 and now forms part of the \$1.3 billion *High Capacity Metro Trains* project.

High-capacity signalling

Infrastructure funding for the *Trial of High-capacity Signalling – Stage 1* project was first announced in the 2015-16 Budget and expected to be carried out over 2015-16 to 2017-18 on the Sandringham line.³⁴⁰ As part of the 2015-16 Financial and Performance Outcomes Inquiry the Committee was informed that:

- only \$1.2 million of the original \$20.7 million budgeted for the project over 2015-16 was spent, and this ‘variance was due to the change of scope and planning required around relocating the HCS trial from the Sandringham line to the South Morang line’³⁴¹
- The completion date had been extended from quarter 4 in 2017-18 to quarter 4 in 2018-19³⁴²
- The project was renamed *High-capacity Signalling Trial – Stage 1 (Metro Various)* in the 2016-17 budget papers.

By 2016-17, only a further \$2.0 million had been spent on the project against an originally predicted expenditure of \$16.8 million. The Committee was informed the variance was due to the ‘majority of funding transferring to *Melbourne Metro Tunnel (Metropolitan Various)* and minor works yet to be completed’.³⁴³ The inclusion of *High-Capacity Signalling Trial – Stage 1 (Metro Various)* funding to the *Melbourne Metro Tunnel (Metro Various)* project increases the latter project’s TEI to \$11.0 billion.

At the public hearings, the CEO of Public Transport Victoria explained the reasons behind moving the trial from the Sandringham line to the South Morang line, as well as the expanded scope of the project to the Committee:

³³⁹ Mr Jeroen Weimar, CEO, Public Transport Victoria, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.25

³⁴⁰ Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.37

³⁴¹ Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee’s 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, p.20

³⁴² *ibid.*

³⁴³ Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee’s 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, p.39

... a couple of years ago we had a standalone project to trial high capacity signalling. What we have been doing and what we did 18 months ago was to decide that of better value for the state was to introduce this in conjunction with the Metro Tunnel, so there is a significant signalling component as part of the Metro Tunnel program. There is a PPP for that; that has now been awarded. They will be responsible for doing the trialling of high capacity signalling on the South Morang line, so we have combined the budget that we had set aside for high capacity signalling with the much larger Metro Tunnel program for introducing high capacity signalling there, and they will be working on it together. Rather than having two sets of projects running in parallel, rather than having two sets of contractors, we thought we would do it with one.³⁴⁴

FINDING 59: The trial of *Trial of High-capacity Signalling – Stage 1* project was moved from the Sandringham line to the South Morang line in 2015-16 and in 2016-17 was merged into the \$11.0 billion *Melbourne Metro Tunnel (Metro Various)* project.

Combining the high-capacity signalling trial into the *Melbourne Metro Tunnel (Metropolitan Various)* project has meant the deadline for completion has been considerably extended. The Committee was informed the project will now take a further eight or nine years to complete:

We will be the first jurisdiction in Australia to introduce high-capacity signalling onto an existing network. It is a really complex engineering and train operations feat. It is a very significant change in the operation of our network. That is why we need to trial it within the existing brownfield environment of the South Morang line. Our focus absolutely is on the introduction to the first line that absolutely needs it, which will be the new Sunbury–Dandenong line with the Metro tunnel, so it is the absolute focus to make sure that we get it ready for there. That gives us about eight to nine years to go and introduce it, which is about right for a project of this scale. It does then provide the infrastructure, the capability and the system know how to expand high capacity signalling onto other groups, like the Clifton Hill group, should that be something that future governments decide, but that is not currently in our investment program.³⁴⁵

The Committee notes the difficulty of introducing a high-capacity signalling system across an existing rail network, together with unsuccessful attempts to implement this in other metropolitan networks internationally.³⁴⁶

³⁴⁴ Mr Jeroen Weimar, CEO, Public Transport Victoria, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.25

³⁴⁵ *ibid.*, p.26

³⁴⁶ On 18 July 2017 the Government announced that CPB Contractors and Bombardier Transportation had been awarded a \$1.0 billion contract to deliver the 'Rail Systems Alliance' section (which includes developing and trialling high capacity signalling) of the Metro Rail tunnel project, with the Bombardier company receiving \$310 million of the total figure. Bombardier was previously awarded a £354 million contract in 2011 by Transport for London (TfL) to develop and install high capacity signalling across certain lines on the London Underground, but cancelled the contract two years later as it was unable to deliver the project. (Kristine Oworm, 'Bombardier Inc Slammed by London for 'shameful' Tube project: "Nothing short of a disaster"', *Financial Post*, March 14 2016. See also Budget and Performance Committee, London Assembly, *Transport for London's Signal Failure* (2016)).

While the Committee was informed the Dandenong corridor can expect to have high-capacity signalling as part of the *Melbourne Metro Tunnel* project by the time the tunnel opens in 2026, it is unclear when the remaining lines of the metropolitan network will receive high-capacity signalling. The Committee was told at the hearings:

... I think it is a matter for future governments around the rate of that rollout and when the demand gets to a level where you need to do that.³⁴⁷

FINDING 60: High-capacity signalling uses technology to allow trains to run closer together along rail lines, thus increasing the number of trains operating on the network. High-capacity signalling on the Dandenong rail corridor is now expected to come into operation by 2026. The installation of high-capacity signalling across the rest of the Melbourne metropolitan rail network has not yet been determined.

6.4.3 Transport planning

The increase in asset investment expenditure on transport and communications over 2016-17 was considerable. Figure 6.7 shows the \$4.4 billion spent in 2016-17 was double the amount spent over the previous two financial years, and now accounts for just under 60 per cent of the total asset investment made across the entire general government sector.

Figure 6.7 Transport and communications asset expenditure, 2007-08 to 2016-17



Source: Department of Treasury and Finance, *Financial Reports 2007-08 to 2016-17*

The Committee has examined various elements of the Government's transport related infrastructure program, including:

- the impact on the State's net debt position (Chapter 4)

³⁴⁷ Mr Jeroen Weimar, CEO, Public Transport Victoria, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.26

- the impact of PPP projects on the state's finances (Chapter 4)
- the level of budgetary detail provided on large scale projects such as the *Level Crossing Removal Program (Metro Various)*.³⁴⁸

In early 2017, the statutory office Transport for Victoria was established and operates within the Department of Economic Development, Jobs, Transport and Resources. It is comprised of eight transport agencies³⁴⁹, and also works with other transport authorities and statutory offices³⁵⁰, as well as private transport operators, to deliver the State's transport services and projects.

At the public hearings, the Committee asked representatives of the Department of Economic Development, Jobs, Transport and Resources if 'there is a separate corporate plan that Transport for Victoria is working with or is developing or has developed'.³⁵¹ The Secretary of the Department of Economic Development, Jobs, Transport and Resources replied:

No. The department still has ultimate oversight of everything within it including Transport for Victoria, and we are a third of the way roughly through our latest what we call a strategic plan, but which is a combination of strategy and corporate plan. Transport for Victoria's priorities are embedded in part of that document.³⁵²

Further to this, a Committee member noted:

Under the legislation³⁵³ there should be the development of a Victorian transport plan. I have not seen one. Well, there have been a few iterations of those over the years. I have not seen one for a while, and that is the role of Transport for Victoria. Has work commenced on that?³⁵⁴

The Secretary of the Department replied:

So it is clearly a very critical function of Transport for Victoria, to understand and to analyse the pressures and the opportunities in the system and lay out planning for advice to governments.³⁵⁵

³⁴⁸ Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017), pp.132-136

³⁴⁹ These are Public Transport Victoria, VicRoads, V/Line, Taxi Services Commission, Victorian Ports Corporation (Melbourne), Victorian Regional Channels Authority, Port of Hastings Development Authority and Melbourne Port Lessor.

³⁵⁰ These are VicTrack, Melbourne Metro Rail Authority, Level Crossing Removal Authority, Western Distributor Authority, North-East Link Authority, Transport Safety Victoria and the Transport Accident Commission.

³⁵¹ Hon. Sue Pennicuik MLC, Member, Public Accounts and Estimates Committee, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.14

³⁵² Mr Richard Bolt, Secretary, Department of Economic Development, Jobs, Transport and Resources, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.14

³⁵³ The *Transport Integration Act (2010)* states that the 'lead transport agency, in consultation with the Department, must prepare and periodically revise the transport plan for the Secretary' and the Secretary must then provide a copy to the Minister'. (*Transport Integration Act (2010)*, Section 63)

³⁵⁴ Hon. Sue Pennicuik MLC, Member, Public Accounts and Estimates Committee, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.14

³⁵⁵ Mr Richard Bolt, Secretary, Department of Economic Development, Jobs, Transport and Resources, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.15

While the transport and infrastructure strategies currently in place are not 'knitted together in a single plan'³⁵⁶, it was explained to the Committee that:

The accountability around planning is ensuring that there is up-to-date data and options for government. Of course as a department we provide advice to government and government makes the decisions on the investment pipeline. The manifestations of that work appear in a number of documents that are publicly available: the *Regional Network Development Plan*, a cycling strategy was released, there is a road safety strategy, there is a rolling stock strategy. So that is how I would articulate the planning frameworks that we are using as the policy structures for implementing activity on the network.³⁵⁷

Further to this, the Committee was informed:

... Plan Melbourne embodies a transport planning approach, and the government's infrastructure plan articulates the government's desire for the future pipeline.³⁵⁸

In the absence of an overarching transport plan for Victoria, the Secretary of the Department of Economic Development, Jobs, Transport and Resources told the Committee:

That is ultimately a question of advice we give to government, and government itself then needs to obviously decide in what form in which to release the planning information of that kind. I would just simply say that the work that has been done gives a very strong foundation for planning across the state, across the modes, into the future and is a solid foundation for governments to actually make their investment decisions and their service decisions on. I am not sure I can say more than that at this stage.³⁵⁹

FINDING 61: Despite a record level of transport-related infrastructure asset investment in 2016-17, there is currently no overarching transport plan for Victoria, nor timeframe for formulating one.

³⁵⁶ *ibid.*, p.15

³⁵⁷ Dr Gillian Miles, Head, Transport for Victoria, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.15

³⁵⁸ *ibid.*

³⁵⁹ Mr Richard Bolt, Secretary, Department of Economic Development, Jobs, Transport and Resources, *2016-17 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2018, p.15

7

Review of annual reports

Key findings

- All indicators were found to be relevant to objectives and in the vast majority of cases were appropriate for assessing performance.
- There are three indicators in the budget papers for 2016-17 regarding the Department of Health and Human Services that are not addressed in its 2016-17 annual report. One of these indicators is children in out-of-home care meeting literacy and numeracy benchmarks.
- Reasons for material variances are not always provided in the Department of Health and Human Services' annual report, for example for the unplanned/ unexpected hospital readmissions and response times to code 1 emergency incidents performance measures.
- In relation to the Acute Health Services (Department of Health and Human Services) output group, almost half of the output measures for the *Admitted Services* output reflected only preliminary results despite the cost for this output amounting to close to \$9.9 billion.
- The Department of Education and Training has not reported its performance against two indicators outlined in the 2016-17 Victorian Budget, including Vocational Education and Training participation by learners facing barriers.
- The development of indicators adopted by the Department of Economic Development, Jobs, Transport and Resources and for annual reporting purposes is at an advanced stage compared to other departments. Extensive use has been made of satisfaction surveys.
- There is very limited information in the Department of Economic Development, Jobs, Transport and Resources' annual report on the delivery of major infrastructure projects in 2016-17 including the *Melbourne Metro Tunnel* project, level crossing removals and the *West Gate Tunnel* project.
- The Committee found four outputs where the Department of Premier and Cabinet significantly underspent its budget for 2016-17 including in areas such as public sector information communications technology and Aboriginal policy.
- The Department of Premier and Cabinet would be ideally placed to prepare and table a consolidated whole-of-government outcomes report on an annual basis.
- There was no detailed information regarding the extent to which high-value high-risk government projects were completed within agreed timeframes and scoping requirements in the Department of Treasury and Finance's annual report.

7.1 Introduction

Annual reports are an important tool that assist users understand the operation of accountability to Parliament.³⁶⁰ Users of annual reports include Members of Parliament, the community, other government agencies, employees and the media.

The Committee examined whether information disclosed in annual reports through the reporting of performance against indicators was:

- *relevant* to the stated objectives
- *appropriate* for assessing performance in terms of the objectives, including progress made in achieving the impacts that agencies sought to have on clients and the community
- *accurate* in terms of the information presented and the performance reported.

In conjunction with the above, the Committee also examined whether the reporting of key initiatives and performance against output measures was meaningful. The Committee did not form a view on whether the indicators represented the most appropriate ones to assess whether each objective had been effectively met.

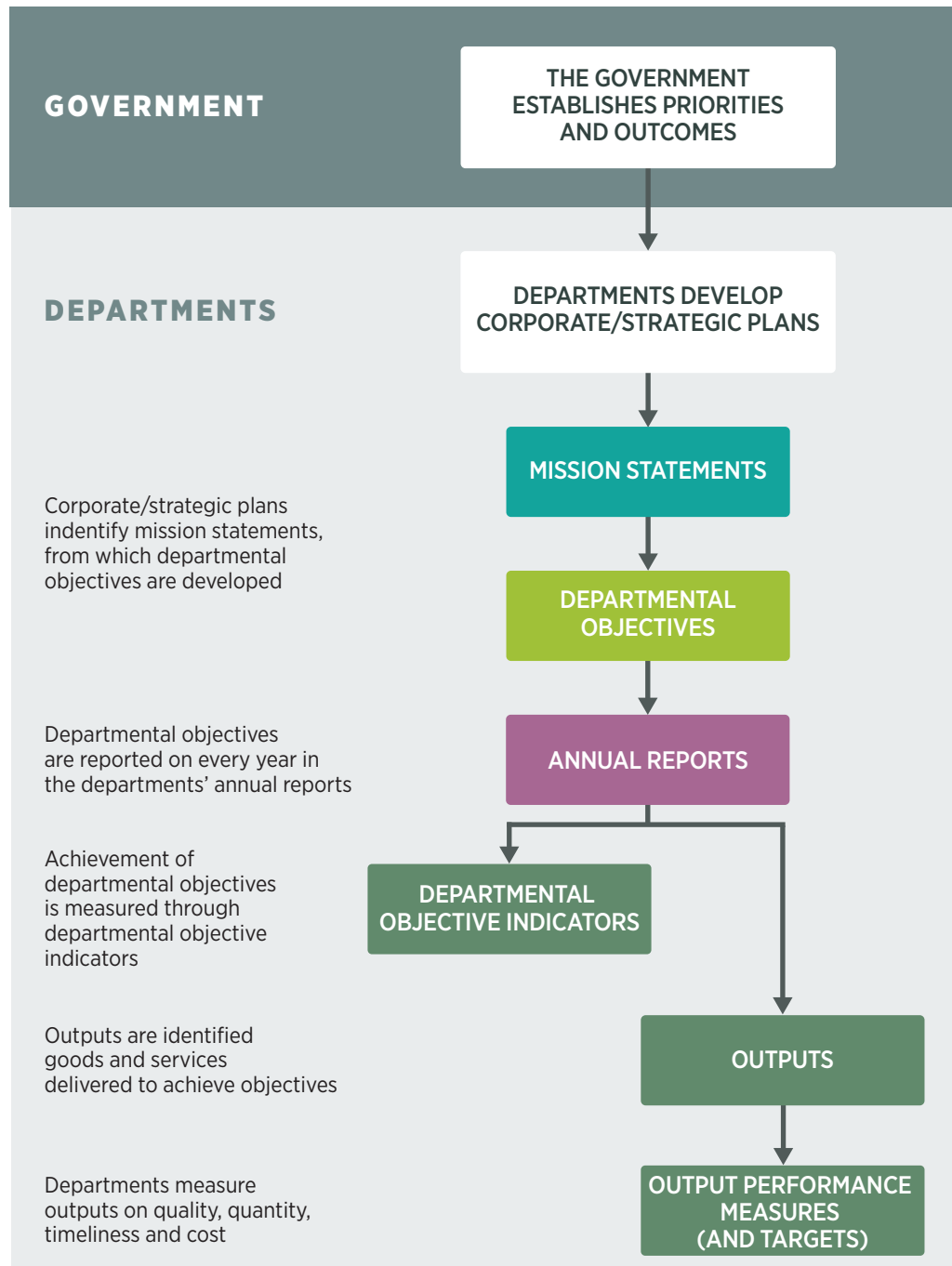
The Committee then examined whether agencies, after reporting performance data against those objective indicators and output performance measures, provided meaningful analytical commentary on:

- their overall performance in relation to achieving each objective, or outcome if that was built into the development of the objective
- trends identified when presenting data associated with the objective indicators
- significant output variations between performance targets and actual results for the year.

Victoria's Performance Management Framework and its various components is illustrated in Figure 7.1.

³⁶⁰ Government of Western Australia, Public Sector Commission, *Annual Reporting Framework 2016-17* (2016)

Figure 7.1 Victoria’s performance measurement and annual reporting system



Source: Based on Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2017)

The annual reports and associated material included in corporate/strategic plans and budget papers for 2016-17 for the seven Government departments were examined. Thirty-seven objectives, 131 objective indicators, 221 lower level indicators and 1,047 output performance measures laid the basis for the Committee’s work. Table 7.1 shows a breakdown of these by department.

Table 7.1 Number of objectives, objective indicators, lower level indicators, output performance measures and output cost per department

Department/agency	Objectives	Objective indicators	Lower level indicators	Output performance measures	Output cost 2016-17 (\$ billion)
Department of Economic Development, Jobs, Transport and Resources	4	20	50	291	8.9
Department of Education and Training	4	31	81	97	13.0
Department of Environment, Land, Water and Planning	8	17	-	99	1.8
Department of Health and Human Services	6	21	30	277	21.4
Department of Justice and Regulation	7	27	60	129	6.2
Department of Premier and Cabinet	4 ^(a)	4	-	94	0.5
Department of Treasury and Finance	4	11	-	60	0.3
Total	37	131	221	1,047^(b)	52.1

(a) The 4 objectives are accompanied by 10 strategies.

(b) Some output measures are also used as objective indicators.

7.2 Key themes

There are strong features of the budgetary and accountability regime in this State where meaningful and informative annual reporting was evident from the Committee's review. Some departments, such as the Department of Justice and Regulation, have incorporated an outcome focus into the framing of objectives. The Committee found that departments had developed comprehensive outcome frameworks in 2016-17, generally covering a four-year period to 2021. All indicators were found to be relevant to objectives and in the vast majority of cases were appropriate for assessing performance.

However, clear and demonstrable linkages between objectives and outcomes were for the most part lacking across the board. Further work is required in this area by departments.

FINDING 62: All indicators were found to be relevant to objectives and in the vast majority of cases were appropriate for assessing performance. However, clear and demonstrable linkages between objectives and outcomes were for the most part lacking across the board.

The Committee also identified various areas where performance reporting could be improved. It found:

- no agency articulated the major projects and initiatives planned for the reporting year in its annual report

- there is a general lack of reporting on shared responsibilities for cross-agency performance and on an agency's contribution to the joint outcomes
- departments were proficient at detailing their achievements for the year relative to each objective. However, areas where performance could be improved were not identified and discussed in terms of future directions
- a lack of a well-structured performance overview section. There was insufficient commentary in an overall sense about whether departments considered they had performed well against each objective
- the indicators and output measures adopted by departments, while providing useful data about some elements of performance could be enhanced in order to gauge whether adequate progress has been made in achieving the desired outcomes and objectives
- while most agencies included an outlook section, no report adopted a strategic focus in providing a commentary on the future operating environment, developments and challenges
- potential for additional reporting on the economic, environmental and social impacts of its operations.

Detailed results of the review according to each department and agency are set out below.

7

7.3 Department of Health and Human Services

The Committee reviewed the performance information reported against each of the 21 objective indicators and related information.³⁶¹ It found that:

- meaningful commentary was lacking on the extent to which each of the six departmental objectives and related outcomes were met. For example, the impact of 26.5 per cent of emergency department patients not treated within clinically recommended times in public hospitals on the objective regarding safety, high quality and accessible health services in public hospitals.³⁶²
- all performance indicators and output measures were relevant and correlated with the Department's operational imperatives and activities. The quality of information for reporting performance could be enhanced in some cases.
- the Department released a strategic plan in June 2017 covering an 18-month term. The framework articulates the outcomes for Victorians that the Department is responsible for and the key result areas by which it will measure its efforts. The Committee looks forward to reviewing how services and activities are reported against this framework. At present the objective indicators are not linked to outputs in the annual report.

³⁶¹ Related information was disclosed by way of a series of result indicators at a lower level (30 in total).

³⁶² Department of Health and Human Services, *Annual Report 2016-17* (2017), p.24

RECOMMENDATION 8: To provide clearer performance-related connections in the Department's annual report, the Department of Health and Human Services link its objectives and performance indicators with its outputs to be delivered as part of the budget process.

Other key issues identified by the Committee in relation to the Department of Health and Human Services are set out below.

7.3.1 Budget paper indicators absent in the annual report

There are three indicators in the budget papers for 2016-17 connected with the Department of Health and Human Services that are not addressed in its 2016-17 annual report. The indicators are:

- incidence/prevalence of selected potentially preventable health conditions is reduced
- attendance of young people in detention in accredited education and training (this indicator was included in the Department's 2015-16 annual report)
- children in out-of-home care meeting literacy and numeracy benchmarks.³⁶³

The Committee is of the view that it would be desirable if the department reports its performance against the entire suite of indicators outlined in the budget papers for service delivery.

FINDING 63: There are three indicators in the budget papers for 2016-17 connected with the Department of Health and Human Services that are not addressed in its 2016-17 annual report. One of these indicators is children in out-of-home care meeting literacy and numeracy benchmarks

RECOMMENDATION 9: The Department of Health and Human Services account in its annual report for all of the indicators set out in the Victorian budget papers.

7.3.2 Unplanned/unexpected hospital readmissions and ambulance services

Reasons for material variances were not always provided in the annual report for example in the case of unplanned/unexpected hospital readmissions and response times to code 1 emergency incidents performance measures.

For the two output measures where the unplanned/unexpected readmissions target for 2016-17 was exceeded by more than five per cent, namely for hip replacements and paediatric tonsillectomy and adenoidectomy, the Department stated that 'Health services continue to explore ways to reduce avoidable readmissions'.³⁶⁴ No further explanation was offered.

³⁶³ Department of Health and Human Services, *Budget Paper No.3: 2016-17 Service Delivery* (2016), pp.214-215

³⁶⁴ Department of Health and Human Services, *Annual Report 2016-17* (2017), p.42

The result for the proportion of code 1 emergency incidents responded to within 15 minutes state-wide and in centres with more than 7500 people was lower than the targets by 7.9 per cent and 7.0 per cent respectively for 2016-17. In commenting on these results, the Department stated that while the results were lower than the targets, they were an improvement over the previous year.³⁶⁵ For the purpose of output performance reporting, the reasons for variations between actual performance and targets that exceed five per cent should be explained in the annual report, rather than commenting on trends with prior years only.

FINDING 64: Reasons for material variances are not always provided in the Department of Health and Human Services annual report for example for the unplanned/unexpected hospital readmissions and response times to code 1 emergency incidents performance measures.

RECOMMENDATION 10: Where unplanned/unexpected readmissions targets are exceeded by more than five per cent, or lower than five per cent the Department of Health and Human Services provide reasons for the result in its annual report.

7.3.3

Absence of timely data to support performance reporting

Of the 30 lower level indicators, there were 12 indicators where the results for 2016-17 were not available for inclusion in the Department's annual report. The indicators include measures of matters of significant public interest and the commitment of substantial public funds. The indicators are:

- 'Percentage of Victorian persons with low income (<\$20,000) who have assessed their health status as fair or poor'
- 'Victorian age standardised mortality rates of potentially avoidable deaths under 75 years'
- 'Adult inpatient rating of care received while in hospital'
- 'Substantiated cases of neglect'
- 'Homelessness clients who achieved independent housing after support'
- 'Number of individuals who used disability support services'
- 'Public housing allocations' and 'Community housing allocations'
- 'Average turn-around time for vacant stock in public housing'
- 'Total hospital surplus as at 30 June'.

FINDING 65: Of the 30 lower level indicators, there were 12 indicators where the results for 2016-17 were not available for inclusion in the Department of Health and Human Services annual report.

³⁶⁵ *ibid.*, p.44

7.3.4 Need for more sophisticated performance measures

More sophisticated performance measures should be developed in relation to spending on health infrastructure, elective surgery waiting times³⁶⁶ and measurement of chronic disease risk factors.³⁶⁷

FINDING 66: More sophisticated performance measures should be developed in relation to spending on health infrastructure, elective surgery waiting times and measurement of chronic disease risk factors.

RECOMMENDATION 11: The Department of Health and Human Services:

- (a) disclose in its annual report information showing trends in elective surgery waiting times for particular specialities that show a significant improvement or deterioration
- (b) explore the option of expanding the indicator on chronic disease risk factors beyond smoking
- (c) develop a more comprehensive suite of infrastructure-related indicators connected with performance, rather than reporting only on the amount of capital funding.

7.3.5 Admitted services

In relation to the Acute Health Services output group, almost half of the output measures for the *Admitted Services* output reflected only preliminary results.³⁶⁸ The *Admitted Services* output relates to the number of separations, infections and unplanned/unexpected readmissions for particular specialities. An explanation was not offered as to why the results were only preliminary, nor was information provided in relation to how and when interested parties can access final results for these measures, despite the cost for this output amounting to close to \$9.9 billion.³⁶⁹

FINDING 67: In relation to the *Acute Health Services* output group, almost half of the output measures for the *Admitted Services* output reflected only preliminary results despite the cost for this output amounting to close to \$9.9 billion.

RECOMMENDATION 12: When information of a preliminary nature is reported in its annual report against output performance measures, the Department of Health and Human Services explain why it is regarded as a preliminary result, when the information will be finalised and how interested parties can then access this information when it becomes publicly available.

³⁶⁶ *ibid.*, p.21 and 24

³⁶⁷ *ibid.*, p.20

The Committee noted that the percentage of Victorians aged 18 or more who were current smokers for 2016-17 had not been published through the Victorian Population Health Survey in time for inclusion in the Department's 2016-17 annual report. In view of the trend data presented over the past three financial years, the Department indicated that the associated risk factors for obesity, including fruit and vegetable consumption, physical activity and obesity rates for adults and children remain a concern.

However, the only data presented in relation to this indicator relates to smoking. The Committee believes efforts should be made to gather and report information relating to the other risk factors in addition to smoking. In addition to trend analysis, comparisons to benchmarks from other jurisdictions and targets would be useful.

³⁶⁸ Department of Health and Human Services, *Annual Report 2016-17 (2017)*, p.42

³⁶⁹ *ibid.*

7.3.6 Mental health: Emergency patients admitted to a mental health bed within eight hours

Against a target of 80 per cent, 60.4 per cent of emergency patients were admitted to a mental health bed within eight hours in 2016-17.³⁷⁰ The Department explained that the result was lower than expected due to the high levels of demand as more people are presenting directly emergency departments needing an acute inpatient admission, particularly in population growth areas in the metropolitan areas.³⁷¹

7.4 Department of Education and Training

The Committee reviewed the performance data reported against each of the 31 indicators and related data in the annual report. It found that:

- the report contains meaningful commentary using this data to explain how it had performed against each outcome objective. This commentary also drew on benchmarking data to illustrate Victoria's performance
- the indicators adopted by the Department for annual reporting purposes were well developed and linked to its four outcome areas
- extensive use had been made of national and international standards in the outcome area relating to achievement.

The Department released a strategic plan in July 2017 covering a four-year period 2017-2021 which is developed around its four outcome areas, the current outcome indicators and a new set of objectives. Importantly, the Department has a strong focus on improving student outcomes.

The Department of Education and Training is the only agency that has expressed an overall opinion on its performance based on the information reported against its objectives: 'Data against these indicators shows that the Department's performance against its objectives remains strong'.³⁷²

With regard to 2016-17, the Committee found that:

- all performance indicators and output measures were relevant and correlated with the Department's operational imperatives and activities. The appropriateness of a few indicators should be examined where information was not available in time for inclusion in the annual report
- the Department has not reported its performance against two indicators outlined in the 2016-17 Budget
- there were several instances of performance data not being available in time for inclusion in the annual report.

³⁷⁰ *ibid.*, p.46

³⁷¹ *ibid.*

³⁷² Department of Education and Training, *Annual Report 2016-17* (2017), p.14

7.4.1 Indicators outlined in the budget papers but not in the annual report

There are two indicators specified in the budget papers for 2016-17 connected with the Department of Education and Training that are not covered in its 2016-17 annual report. These are listed in Table 7.2.

Table 7.2 Indicators in the budget papers that are not reported on in the annual report

Departmental objective	Indicator
<p>Engagement</p> <p>Increase the number of Victorians actively participating in education, training, development and child health services</p>	VET participation by learners facing barriers
<p>Wellbeing</p> <p>Increase the contribution education, training, development and child health services make to good health and quality of life for all Victorians, particularly children and young people</p>	Proportion of children who have no general development issues on entry into Prep

Source: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery 2017*, pp.164-165

For the Department to be fully accountable it is essential that it reports its performance against the entire suite of indicators outlined in the budget papers for service delivery.

FINDING 68: The Department of Education and Training has not reported its performance against two indicators outlined in the 2016-17 Victorian budget, including Vocational Education and Training participation by learners facing barriers.

RECOMMENDATION 13: The Department of Education and Training explain in its annual report the rationale for not reporting against all of the indicators set out in the Budget.

7.4.2 Absence of timely data to support annual reporting

The Committee noted that the data to inform several important indicators was not available at the time of the September 2017 tabling of the 2016-17 Annual Report, including:

- ‘Proportion of graduates with improved employment status after training’³⁷³
- ‘Participation in Maternal and Child Health Services’³⁷⁴
- ‘Proportion of infants fully or partially breastfed at three and six months’³⁷⁵

³⁷³ *ibid.*, p.17

³⁷⁴ *ibid.*, p.19

³⁷⁵ *ibid.*, p.22

If data is not available for the annual report, this calls into question the appropriateness of using such indicators for assessing the performance of the Department. As a minimum, the Department should explain why the data was not available by September 2017 when the annual report was published. The Department should investigate the replacement of such indicators.

RECOMMENDATION 14: If the data to inform indicators cannot be obtained in a timely manner for inclusion in the annual report, the Department of Education and Training assess whether it is appropriate to retain such indicators for annual reporting purposes.

7.4.3 Students with a positive opinion about their school

The Committee noted that three in five primary and about one in five secondary school students reported positive perceptions about their school providing a stimulating learning environment.³⁷⁶ Various initiatives are underway to address this matter as the Department acknowledges that positive engagement with schooling promotes achievement.³⁷⁷ Apart from disclosing the trend over five years, which has remained relatively constant, it may be useful to ascertain whether the perceptions of Victorian students mirror those in other jurisdictions. The Committee notes that the Productivity Commission is developing a measure of ‘student engagement’ (behavioural, emotional and cognitive) to compare performance between Australian jurisdictions.³⁷⁸

7.4.4 Dollar per primary and secondary school student per financial year

The Committee noted that results for 2015-16 and 2016-17 relating to the indicators ‘Dollar per primary school student per financial year’ and ‘Dollar per secondary school student per financial year’ were not available at all for 2015-16 and not available for 2016-17 in time for publication of the *2016-17 Annual Report*.³⁷⁹

It is difficult to understand why this important data is not available for the annual report, given that the financial statements of the department must be finalised and audited as part of the Department of Education and Training annual report. The Committee believes that the department should resolve any impediments to the publication of the data ahead of the tabling of the 2017-18 Department of Education and Training annual report.

RECOMMENDATION 15: Impediments to the publication of dollar per primary and secondary school student per financial year be resolved ahead of reporting of performance against these measures in the 2017-18 Department of Education and Training annual report.

³⁷⁶ *ibid.*, p.19

³⁷⁷ *ibid.*, p.18

³⁷⁸ Productivity Commission, *Report on Government Services 2017* (2017), p.4.15

³⁷⁹ Department of Education and Training, *Annual Report 2016-17* (2017), p.24

7.4.5 Dollar per VET student contact hour per calendar year

The Committee noted that results for 2016-17 relating to the indicator ‘Dollar per VET student contact hour per calendar year’ was not available in time for publication of the *2016-17 Annual Report*.³⁸⁰ If this data is not to be available when the annual report is published, this calls into question the appropriateness of using this indicator to gauge the performance of the Department.

RECOMMENDATION 16: If data for reporting against the indicator ‘Dollar per VET student contact hour per calendar year’ cannot be obtained in a timely manner for inclusion in the annual report, the Department of Education and Training assess whether it is appropriate to retain this indicator for annual reporting.

7.4.6 Early Childhood Development output

With regard to five out of the nine quantity, quality and timeliness performance measures relating to the *Early Childhood Development* output, the final results were not available for 2016-17 due to timing of the data collection, including:

- ‘Maternal and child health clients with aged 0-1 year receiving additional support through enhanced Maternal and Child Health Services (per cent)’
- ‘Total number of Maternal and Child Health Service clients (aged 0-1 year)’
- ‘Total number of children receiving Early Childhood Intervention Services’
- ‘Families who are satisfied with the Early Childhood Intervention Services provided (per cent)’
- ‘Children aged 0-1 month enrolled at Maternal and Child Health Services from birth notifications (per cent)’.

For this reason, the actual results reported for 2016-17 against these measures for annual reporting purposes were the expected outcomes published in the 2017-18 budget papers.³⁸¹

RECOMMENDATION 17: To assist interested parties assess actual performance against targeted activity, if final figures for the current reporting year are not available in time for report publication, the Department of Education and Training disclose in its annual report how this data relating to the *Early Childhood Development* output can be accessed and the latest date that the data will become publicly available.

7.4.7 Average days lost due to absence from school

Currently the ‘Average days lost due to absence’ performance measures for the school education outputs at the primary and secondary levels compare the results for 2016-17 against the targets for Years 5, 6, 7-10 and 11-12. It would also be useful if the Department reported the actual results against other jurisdictions as the

³⁸⁰ *ibid.*

³⁸¹ *ibid.*, pp.26-27

number of days lost is around 15 days.³⁸² The Productivity Commission published student attendance (rates and levels)³⁸³ for most Australian jurisdictions including 2016 data from Victoria in its *Report on Government Services 2017*.³⁸⁴ The report showed that Victorian student attendance rates, years 7–10 in government school are marginally higher than other reported jurisdictions.³⁸⁵

7.5 Department of Economic Development, Jobs, Transport and Resources

The Department released a strategic plan in July 2016. It contains a ten year Outcomes Framework, including 37 priority actions to be undertaken in 2016-17. Importantly, the Department acknowledges that it needs to know whether its activities achieve value for money for Victorians. The Department states that it is necessary to evaluate and measure its performance to ensure efficient, effective and integral outcomes through the establishment of indicators and measures through the Outcomes Framework. The Committee looks forward to reviewing how the services and activities are reported against this framework.

The Committee found:

- a number of examples where key actions undertaken by the Department met or exceeded expectations. For example, more than \$2.23 billion in new capital investment was generated from government facilitation services and assistance in 2016-17 against a target of \$2.2 billion, while 6,280 full-time equivalent jobs were created against a target of 4,800 also from government facilitation services and assistance.³⁸⁶
- the reporting of key actions for the year could be linked more directly to the achievement of outcomes. For example, quantifying the impact that the higher than expected exports had on the creation of employment opportunities.

RECOMMENDATION 18: Where activities of the Department during a year have an impact on outcomes relevant to the Department's objectives, such as increasing employment opportunities, the Department of Economic Development, Jobs, Transport and Resources' annual report reflect this to enhance its accountability.

The development of indicators adopted by the Department for annual reporting purposes is at an advanced stage compared to other departments. Extensive use has been made of satisfaction surveys. Key actions are linked to the achievement

³⁸² *ibid.*, pp.28 and 31

³⁸³ Student attendance rate is the number of actual full time equivalent student days attended by full time students as a percentage of the total number of possible student attendance days attended over the period. Student attendance level is the proportion of full time students whose attendance rate is greater than or equal to 90 per cent over the period. Productivity Commission, *Report on Government Services 2017* (2017), p. 4.8.

³⁸⁴ Productivity Commission, *Report on Government Services 2017* (2017), Chapter 4

³⁸⁵ *ibid.*, p. 4.12

³⁸⁶ Department of Economic Development, Jobs, Transport and Resources, *2016-17 Annual Report* (2017), p.184

of outcomes. For example the Department reported that a safer transport network with fewer fatalities and injuries improves the lives for Victorians and reduces negative impacts on productivity through travel delay.³⁸⁷

FINDING 69: The development of indicators adopted by the Department of Economic Development, Jobs, Transport Resources and for annual reporting purposes is at an advanced stage compared to other departments. Extensive use has been made of satisfaction surveys.

7.5.1 Major transport infrastructure

There is very limited information in the annual report on major infrastructure projects in 2016-17 including the *Melbourne Metro Tunnel (metropolitan various)*, *Level Crossing Removal Program (metro various)* and the *West Gate Tunnel Project*. The Committee commented on the deficiency of Department of Economic Development, Jobs, Transport and Resources' performance measures relating to large infrastructure projects in its *Report on the 2017-18 Budget Estimates* and made a recommendation in this regard.³⁸⁸

FINDING 70: There is very limited information in the Department of Economic Development, Jobs, Transport and Resources annual report on the delivery of major infrastructure projects in 2016-17 including the *Melbourne Metro Tunnel (Metropolitan Various)*, *Level Crossing Removal Program (Metro Various)* and the *West Gate Tunnel Project*.

The Committee restates the recommendation made in the *Report on the 2017-18 Budget Estimates* regarding performance measures for these large scale projects:

The Department of Economic Development, Jobs, Transport and Resources discontinue using 'Milestones delivered in accordance with agreed budget and timelines' as the performance measure for asset investment infrastructure projects with a total estimated investment over \$500 million, and develop a set of substantial quantity, quality, timeliness and cost measures that would inform the public as to how these projects are progressing.³⁸⁹

7.5.2 Links between the strategic plan and annual report

The Committee noted that in relation to the 37 priority actions earmarked in the Department's *Strategic Plan 2016* to be undertaken in 2016-17, several planned actions were not discussed in the Department's annual report. For example, there was no information in the annual report on:

- Trade and investment – establishing the Lead, Intern, Volunteer, Experience (LIVE) initiative targeting international and domestic students³⁹⁰

³⁸⁷ *ibid.*, p.207

³⁸⁸ Public Accounts and Estimates Committee, *Report on the 2017-18 Budget Estimates* (2017) Recommendation 14, p.157

³⁸⁹ *ibid.*

³⁹⁰ Department of Economic Development, Jobs, Transport and Resources, *Strategic Plan 2016* (2016), p.18

- Supporting business – delivering the Small Business Regulation Review³⁹¹
- Industry growth and transition – implementing the Koori Business Strategy.³⁹²

7.5.3 Value of Victorian agriculture production, earth resources production and food and fibre exports

As was the case last year,³⁹³ the Department did not report against the following three indicators as the data would only be available in 2018.³⁹⁴ These are:

- ‘Value of Victorian agriculture production’
- ‘Value of earth resources production’
- ‘Value of food and fibre exports’.

RECOMMENDATION 19: If current information cannot be obtained for the annual report on the value of Victorian agriculture production, earth resources production and food and fibre exports other reporting options should be explored by the Department of Economic Development, Jobs, Transport and Resources.

7.5.4 Serious injuries on the transport network

For the units of measure ‘Serious injuries on the transport network’ and the ‘Victorian road serious injury rate per 100,000 population’, the Committee noted that data would be available in December 2017 for these measures³⁹⁵ and, as such, no information could be disclosed for 2016-17 annual reporting purposes. The same situation arose for the ‘Serious injuries on the transport network’ measure for last year³⁹⁶ while the ‘Victorian road serious injury rate per 100,000 population’ was a new measure.

RECOMMENDATION 20: If current information cannot be obtained for the annual report on serious injuries on the transport network other reporting options should be explored by the Department of Economic Development, Jobs, Transport and Resources.

7.6 Department of Justice and Regulation

The Committee reviewed the performance information reported against each of the 27 objective indicators and related information. The Committee found that:

- all of the performance indicators and output measures were relevant and correlated with their operational imperatives and activities. The vast majority were appropriate for measuring performance

³⁹¹ *ibid.* p.19

³⁹² *ibid.*, p.20

³⁹³ Department of Economic Development, Jobs, Transport and Resources, *2015-16 Annual Report* (2016), p.217

³⁹⁴ *ibid.*, p.199

³⁹⁵ *ibid.*, p.208

³⁹⁶ *ibid.*, p.226

- the quality of information reported could be enhanced in the annual report in relation to, for example:
 - youth offender community-based orders and community reintegration
 - young offender recidivism rates
 - youth justice custodial services
 - the effective management of prisoners and offenders.
- the information showed that total reported road fatalities in vehicle collisions in 2016-17 exceeded the target by 7.6 per cent, due primarily to an increase in motorcycle, driver and pedestrian fatalities. While there had been a significant reduction in fatalities on metropolitan roads, this was offset by a large increase in fatalities on country roads.³⁹⁷

7.6.1 Effective supervision of young offenders

While the percentage of community-based orders successfully completed has remained at slightly over 90 per cent over the past four years,³⁹⁸ it is not possible to know whether this result equates to effective rehabilitation. In the case of one in every 10 young offenders (the average daily number of clients under community-based supervision was 835 in 2016-17), the community-based order was not successfully completed. The Committee notes that target is 85 per cent for this measure.³⁹⁹

RECOMMENDATION 21: The information disclosed against the objective indicator ‘percentage of community-based orders successfully completed’ be benchmarked against like jurisdictions.

The objective indicator ‘Young offenders participating in community reintegration activities’ reveals that there has been a marked decrease in clients participating in community reintegration activities from 80 per cent in 2013-14 to 53.4 per cent in 2016-17. The reasons outlined in the annual report are that there has been a higher proportion of young people in custody on remand or with a short sentence.⁴⁰⁰ The incidence of such occurrences somewhat invalidates this performance measure as it is influenced by those clients who are ineligible for reintegration activities.

RECOMMENDATION 22: The objective indicator ‘young offenders participating in community reintegration activities’ be amended to exclude those clients who are ineligible to participate in reintegration activities.

The Committee notes that targets developed for the four quantitative performance measures for youth justice custodial services have a wide range. This diminishes their value as an evaluation tool and makes it easier for the

³⁹⁷ Department of Justice and Regulation, *Annual Report 2016-17 (2017)*, p.22

³⁹⁸ *ibid.*, p.24

³⁹⁹ *ibid.*, p.26

⁴⁰⁰ *ibid.*, p.24

department to meet its targets. For example, the target for the performance measure ‘Annual daily average number of young people in custody: males (15 years plus)’ was 140-190. In commenting on the actual result of 168.4, the Department claimed that this was a positive result as it indicated a lower than expected number of young people detained in youth justice centres.⁴⁰¹

Similarly, in relation to the following outputs several of the performance targets are ranges:

- *Victims and Community Support Services*
- *Criminal Law Support and Reform*
- *Infringements and Warrants*
- *Public Prosecutions and Legal Assistance.*

There are 12 performance measures in total where targets are expressed as a range. This diminishes the value in assessing performance simply makes it easier to meet targets. The Committee has recommended previously that ranges not be used.

RECOMMENDATION 23: The Department of Justice and Regulation replace wide performance target ranges with challenging performance targets.

7.6.2 Effective management of prisoners and offenders

There is significant, ongoing community interest in the outcomes of the effective management of prisoners and offenders as well as opportunities for rehabilitation. There was also significant expenditure on these services in 2016-17 of over \$1.1 billion.

The outcomes reported in the annual report include:

- two thirds of community corrections orders were not completed in 2016-17⁴⁰²
- the rate of prisoner return to prison and offender return to corrective services within two years in 2016-17 was 43.6 per cent and 33.1 per cent respectively⁴⁰³
- approximately one quarter of parole orders, a third of reparation orders and 43 per cent of supervised court orders were not successfully completed in 2016-17⁴⁰⁴
- 82.4 per cent of benchmark measures in prison services agreement were achieved in 2016-17 (against a target of 90 per cent).⁴⁰⁵

401 *ibid.*, p.29

402 *ibid.*, p.31

403 *ibid.*

404 *ibid.*, p.33

405 *ibid.*, p.37

However, the commentary provided on these results in the Department of Justice and Regulation's annual report is minimal. The report should provide readers with a greater insight into the challenges of delivering outcomes for individuals and the community in this sector. The main barriers to achieving stronger results should be set out along with how these issues have been addressed in the last financial year by the department and its related agencies. Future plans to improve results should also be flagged in the annual plan. How Victoria is performing compared to other Australian jurisdictions should be explained.

RECOMMENDATION 24: The Department of Justice and Regulation annual report should provide readers with a greater insight into the challenges of delivering outcomes for the effective management of offenders and prisoners. The main barriers to achieving stronger results should be set out along with how these issues have been addressed in the last financial year by the Department and its related agencies. Future plans to improve results should also be addressed in the annual plan. How Victoria is performing compared to other Australian jurisdictions should be explained.

7.6.3 A fair and accessible Victorian justice system

With regard to the objective indicators 'Legal advice and assistance provided 2013-14 to 2016-17', 'Clinical forensic medical services provided 2013-14 to 2016-17' and 'Services provided to victims of crime against the person', the information reported related to the number of services provided over the past five years. The usefulness of this quantitative data would be enhanced if the results of any surveys undertaken assessing the extent of client satisfaction with such services was also presented in the annual report.

RECOMMENDATION 25: To supplement the reporting of service delivery information, the Department of Justice and Regulation also present the findings of surveys of client satisfaction in relation to legal advice and assistance provided, clinical forensic medical services provided and services provided to victims of crime against the person.

7.6.4 Disclosure of activities of statutory authorities and offices under Ministerial portfolios

The Committee noted that summary information relating to the activities of judicial and quasi-judicial bodies listed under the Attorney-General, such as the Supreme Court of Victoria⁴⁰⁶ is not contained in the Department's annual report. For example, there is no disclosure of the investment and use of funds held in trust and administered by the Funds in Court Senior Masters Office, an Office of the Supreme Court, for beneficiaries of:

- the County and Magistrates' Courts in terms of those suffering a disability from an accident or injury
- the Victims of Crime Assistance Tribunal.

406 *ibid.*, p.157

The Committee is of the view that, where there is a lack of disclosure of the activities of statutory authorities or offices of a Ministerial portfolio that fall under legislation administered by a departmental portfolio, then summary information should be disclosed in the annual report of that department.

FINDING 71: There is no disclosure in the Department of Justice and Regulation's annual report of the investment and use of funds held in trust and administered by the Funds in Court Senior Masters Office, an Office of the Supreme Court, for beneficiaries of:

- the County and Magistrates' Courts in terms of those suffering a disability from an accident or injury
- the Victims of Crime Assistance Tribunal.

RECOMMENDATION 26: The Department of Justice and Regulation disclose in its annual report summary information relating to statutory authorities and offices by Ministerial portfolio such as the Funds in Court Senior Masters Office.

7.7 Department of Environment, Land, Water and Planning

The Committee reviewed the performance data reported against the Department's 17 indicators. It also examined the key activities associated with the Department's eight objectives.

The Committee found that annual report contains meaningful commentary using this data to explain how it has progressed towards achieving each objective. This commentary placed in context some of the results for the year and drew on performance trends. Various government initiatives were described under each objective that are designed to improve performance into the future.

The Department released a corporate plan (2017-2021), which sets out nine public value outcomes and 19 associated strategic outcomes as part of its strategic framework. Its public value outcome indicators mirror the Department's indicators used for annual reporting for 2016-17.

With regard to 2016-17, the Committee found that:

- all of the performance indicators and output measures were relevant and correlated with the Department's operational imperatives and activities. With the exception of one indicator that used an estimate,⁴⁰⁷ all of the indicators were appropriate
- there is considerable scope for expanding the number of indicators to provide a more complete picture of performance, particularly with regard to the objectives that relate to energy services and local government.

⁴⁰⁷ 'Participation in community-based environmental programs'

7.7.1 Relative share of Victorian energy sourced from renewables

This indicator is relevant to the objective ‘Reliable, efficient, accessible, safe and sustainable energy services’ and appropriate for assessing performance against this newly created objective. However, there is scope for developing a greater suite of indicators for this objective that relate to:

- some of the key timeliness milestones that fall within the various output measures (such as the ‘delivery of key milestones for the Powerline Bushfire Safety work program’⁴⁰⁸) that relate to this objective
- the provision of energy from sources other than renewables.

RECOMMENDATION 27: For the newly established objective ‘Reliable, efficient, accessible, safe and sustainable energy services’, the Department of Environment, Land, Water and Planning develop a wider suite of indicators to complement the sole indicator that currently relates to only renewables.

7.7.2 Satisfaction with the performance of councils

This indicator is relevant to the objective ‘Sustainable and effective local governments’ and appropriate for assisting with assessing performance. The department could however develop a greater suite of indicators for this objective, rather than assessing performance solely on the one qualitative type indicator based on the Local Government Community Satisfaction Survey.

RECOMMENDATION 28: For the objective ‘Sustainable and effective local governments’, the Department of Environment, Land, Water and Planning report on a greater suite of quantitative indicators that reflect the work of Local Government Victoria.

7.7.3 Area treated through planned burning and other treatments

Due to the significance of keeping the risk of bushfires to a minimum, the Committee believes that an explanation of the target of a state-wide bushfire risk at 70 per cent or below should be set out in the annual report. In the 2017-18 budget estimates hearing, the then Chief Fire Officer for Department of Environment, Land, Water and Planning explained the use of the risk target in place of the former measure of area of land subject to planned burns to the Committee:

... we have now moved to a risk target. That really is about measuring our effectiveness as opposed to a measure that is arbitrary such as hectare targets ... the risk reduction tool has enabled us to prioritise our approach to planned burning ... If I can elaborate on the risk reduction target further: 100 per cent means no planned burning—100 per cent is the risk that Victorians live with by living

408 Department of Environment, Land, Water and Planning, *Annual Report 2017*, p.50

in Victoria, one of the most explosive fire environments in the world. So through planned burning we try and reduce that by approximately a third. We are very pleased this year to maintain residual risk at 62 per cent.⁴⁰⁹

RECOMMENDATION 29: The Department of Environment, Land, Water and Planning explain in its annual report the basis for the state-wide bushfire risk of 70 per cent or below target and what the target means in lay terms.

7.7.4 Planning

The output cost of \$138.3 million for 2016-17 was \$17.8 million less than the target of \$156.1 million. The Department reported that the variance was predominately due to a delay in the *Smart Planning* program and Growth Areas Infrastructure Contribution funded projects.⁴¹⁰ There is a lack of information contained in the annual report to explain the reasons for these delays and remedial action taken, although there was comment regarding some of the achievements realised in 2016-17 from the *Smart Planning* program.⁴¹¹

RECOMMENDATION 30: Where there is a significant underspend in a year due to a delay experienced in a particular program, the Department of Environment, Land, Water and Planning explain the circumstances surrounding the delay in its annual report and remedial action taken, rather than only disclosing the delay.

7

7.8 Department of Premier and Cabinet

7.8.1 Presentation of performance information

With an output budget of around \$500 million, the Department of Premier and Cabinet has a significant responsibility as a central agency in setting the policy direction and the delivery of whole-of-government initiatives. The Department has significant responsibilities with regard to areas such as multicultural affairs, National Disability Insurance Scheme preparedness and trade in Asia. The Department's vision is to be a leader in whole-of-government policy and performance.

How well the Department performs in whole-of-government policy development and the reporting of performance was difficult to ascertain from the DPC annual report. The 2016-17 Budget included whole-of-government initiatives for five key areas where the Department has a role, while other departments are involved in service delivery, namely:

- Aboriginal affairs
- Family violence

⁴⁰⁹ Ms Stephanie Rotarangi, Chief Fire Officer for the Department of Environment, Land, Water and Planning, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017, p.13

⁴¹⁰ Department of Environment, Land, Water and Planning, *Annual Report 2017 (2017)*, p.58

⁴¹¹ *ibid.*, p.55

- Response to the Hazelwood Mine Fire Inquiry
- Ice Action Plan – Stage 2
- Jobs.

FINDING 72: How well the Department performs in whole-of-government policy development and the reporting of performance was difficult to ascertain from the Department of Premier and Cabinet annual report.

7.8.2 Underspending - variances

The Committee found four outputs where the Department of Premier and Cabinet significantly underspent its budget for 2016-17 namely:

- *Government-wide Leadership, Reform and Implementation* by \$73.2 million or 55 per cent;
- *Public Sector ICT and Digital Government* by \$14.7 million or 57 per cent;
- *Aboriginal Policy, Strengthening Aboriginal Cultural Heritage and Communities* by \$7.6 million or 23 per cent; and
- *Support to Veterans in Victoria* by \$0.9 million or 14 per cent.

There was a lack of disclosure in the annual report about what impact these underspends had on service delivery and outcomes for the year.

FINDING 73: The Committee found four outputs where the Department of Premier and Cabinet significantly underspent its budget for 2016-17 including in areas such as public sector information, communications and technology and Aboriginal policy.

RECOMMENDATION 31: Where significant proportions of output funding are not spent in a year and carried forward to the subsequent year, the Department of Premier and Cabinet outline the underlying reasons for the under-spend in the annual report, together with a discussion on the subsequent impact on the delivery of services and outcomes for that year.

7.8.3 Whole-of-government annual report

The Committee views annual reporting by departments and agencies as a key accountability mechanism to round off the budgetary process and assist in planning processes and future funding deliberations. With each department preparing corporate or strategic plans generally covering a four-year timeframe to 2021 and the development of associated outcomes performance and reporting frameworks, the Committee believes that, rather than considering this as discrete work, there is an opportunity for DPC to prepare a whole-of-government outcomes report on an annual basis.

A whole-of-government outcomes report could provide a consolidated snapshot of the progress made by departments in achieving their desired outcomes as defined in the corporate or strategic plans. A consolidated report of this nature

together with the reporting of performance against objectives by departments and agencies in individual annual reports would provide essential information to feed into the Public Accounts and Estimates Committee's financial and performance outcomes hearings process. Such a report would also facilitate reporting on the outcomes of cross-agency initiatives.

The Department of Premier and Cabinet's *Corporate Plan 2017-21* builds on its vision to be recognised and respected leaders in whole-of-government policy and performance and commits to driving initiatives that enable government to further improve outcomes for citizens.⁴¹² The Committee maintains that the Department of Premier and Cabinet would be ideally placed to prepare a consolidated whole-of-government outcomes report on an annual basis. The Committee believes that at present there is a gap in the performance reporting process in this regard.

FINDING 74: The Department of Premier and Cabinet would be ideally placed to prepare and table a consolidated whole-of-government outcomes report on an annual basis.

RECOMMENDATION 32: The Department of Premier and Cabinet prepare and table a whole-of-government performance outcomes report on an annual basis.

7.9 Department of Treasury and Finance

The Committee analysed the performance information reported against each of the 11 objective indicators and related information.

With regard to 2016-17:

- all of the performance indicators and output measures were relevant and correlated with the Department's operational imperatives and activities
- the quality of some information for reporting performance in the Department's annual report could be enhanced
- the results of client feedback regarding the Department's role in providing high quality, timely and relevant advice on the State's finances and budget was included in the annual report. However, client feedback regarding the other objectives was not reported in the annual report
- for each objective, the objective indicators were not linked to outputs in the annual report. Such alignment would provide a clearer picture of how objectives and objective indicators relate to outputs delivery and output performance measures.

RECOMMENDATION 33: To provide clearer performance-related connections in the Department's annual report, the Department of Treasury and Finance link its objectives and performance indicators with its outputs to be delivered as part of the budget process.

412 Department of Premier and Cabinet, *Corporate Plan 2017-21* (2017), p.1

7.9.1 High-value high-risk government projects

There was no detailed information regarding the extent to which high-value high-risk (HVHR) Government projects were completed within agreed timeframes and scoping requirements in the annual report. High-value high-risk government projects are classified as being HVHR if it is a budget-funded project that is:

- considered high risk using the Department of Treasury and Finance's risk assessment tool, the Project Profile Model (PPM)
- considered medium risk using the PPM and has a TEI of between \$100 million and \$250 million
- considered low risk using the PPM but has a TEI over \$250 million
- identified by Government as warranting the rigour applied to HVHR investments.⁴¹³

The number of major capital projects monitored since June 2012-13 was set out but there was no comparison against planned activity or targets. As such, other than seeing that the number of major capital projects monitored increased gradually from 39 to 45 from June 2012-13 to June 2016-17, it was not possible to assess the adequacy of this number or project delivery.

FINDING 75: There was no detailed information regarding the extent to which high-value high-risk government projects were completed within agreed timeframes and scoping requirements in the Department of Treasury and Finance's annual report.

RECOMMENDATION 35: The Department of Treasury and Finance include comprehensive information in its annual report of the outcomes achieved in relation to the indicator 'Ensure high-value high-risk Government projects are completed within agreed timeframes and scope'.

7.9.2 Feedback from key clients on departmental advice

The Department has developed an indicator for each of its four objectives that called for feedback to be received from key clients in relation to the provision of high quality, timely and relevant advice on:

- the State's finances and budget
- economic policy, forecasts, legislation and frameworks
- asset management, the delivery of infrastructure, management of government land, borrowings, investments, insurance, superannuation issues and prudential supervision
- whole-of-government common services to the Victorian public sector.

⁴¹³ <<https://www.dtf.vic.gov.au/Investment-Planning-and-Evaluation/High-Value-High-Risk>>, viewed 22 January 2018

In reporting on performance against the four indicators relating to the provision of advice under each objective, the Department described the ways in which it provided advice. It did not report on the quality, timeliness and relevance of the advice provided as assessed by key clients.

The only disclosure of the results of client feedback was in the 'Reporting progress towards achieving Departmental objectives and indicators' section of the annual report related to an annual client satisfaction survey regarding the Shared Service Provider. It achieved a customer satisfaction rating of 73 per cent compared to its target of 70 per cent.⁴¹⁴ The Shared Service Provider provides services, including accommodation management, library and car pools for departments and agencies.

FINDING 76: In reporting on performance against the four indicators relating to the provision of advice under each objective, the Department of Treasury and Finance described the ways in which it provided advice. It did not report on the quality, timeliness and relevance of the advice provided as assessed by key clients.

RECOMMENDATION 36: The Department of Treasury and Finance disclose whether their key clients consider high quality, timely and relevant advice has been provided on:

- (a) economic policy, forecasts, legislation and frameworks
- (b) asset management, the delivery of infrastructure, management of government land, borrowings, investments, insurance, superannuation issues and prudential supervision

in its annual report.

⁴¹⁴ Department of Treasury and Finance, *Annual Report 2016-17 (2017)*, p.16

8

Public access to Government data

Key findings

- Departments and agencies do not know who the major beneficiaries are of the data uploaded onto the DataVic website. As a result, reporting information on the policy in departmental annual reports is largely limited to the number of datasets made available on the website.
- Public sector information available on the DataVic portal covers a wide variety of topics including crime statistics and post school destinations. It has been used by members of the community for both formal and informal research purposes. Data relating to public transport and school locations is also frequently downloaded from the website.
- Third parties can transform data on DataVic into applications for mobile devices, reaching large numbers of people who require information about government services, such as public transport timetables and locations.
- The data provided by water corporations and other utilities to the DataVic website has the potential to improve planning, prevent accidental damage to assets and reduce overall project costs.
- Challenges identified by departments and agencies in implementing the *DataVic Access Policy* include limited awareness of the policy internally, limited resourcing and difficulties in assessing what data would be suitable for public release. Privacy and security concerns are also key risks.
- There is limited awareness or adherence to *DataVic Access Policy* guidelines regarding datasets compiled as a result of Freedom of Information requests amongst departments and agencies.
- Limitations of the DataVic website's functionality include a poor search function, broken links to data and out-of-date data.
- The Committee found some improvement in the establishment and use of information asset registers since 2015. Asset registers are used to assist and manage datasets that can be made available to the public. Nearly all department and agencies now have operational asset registers.
- Victorian Government departments and agencies have to adhere to a growing number of guidance and standard documents for information management policies and processes.

8.1 Introduction

This chapter discusses access to public sector information and data in Victoria, and specifically the Government's open access DataVic portal. The portal contains over 6,300 datasets compiled from various Victorian departments and agencies.⁴¹⁵ The portal is designed to allow public access to data held or developed by the Victorian Government. The data is free and can be used by members of the community or businesses for research or commercial purposes. A key feature of releasing raw data to the public for reuse is that it allows the market to quickly design products and services that assist the community at no cost to the Government.⁴¹⁶

In assessing the use and benefits of the Victorian Government's open access DataVic portal, the Committee was informed by the findings and recommendations of the recent Productivity Commission report, *Data Availability and Use*, together with reports into public access to information and data undertaken by the Victorian Parliament's Economic Development and Infrastructure Committee (EDIC) in 2009 and the Victorian Auditor-General in 2015 (Appendix 1). The discussion and findings in this chapter also incorporate responses to the Committee's general questionnaire from the Departments and agencies.

This chapter examines:

- the current status of the DataVic portal, the *DataVic Access Policy* and recent actions regarding Government data access in Victoria
- the benefits and beneficiaries of the *DataVic Access Policy*
- the challenges of implementing the *DataVic Access Policy* identified by departments and agencies
- the connections between the *DataVic Access Policy*, government data made available to the public and Freedom of Information requests
- the functionality of the DataVic website
- the adherence by departments and agencies on the *DataVic Access Policy* in terms of the annual reporting of outcomes and achievements, maintenance of asset registers and governance arrangements.

8.2 The DataVic portal and the *DataVic Access Policy*

The DataVic portal was established in 2010 and was initially operated by the former Department of Innovation, Industry and Regional Development (DIIRD). The DataVic portal acts as a public sector information directory, and this was a key recommendation of the Victorian's Parliament's *Inquiry into Improving*

⁴¹⁵ <https://www.data.vic.gov.au>, viewed 18 December 2017

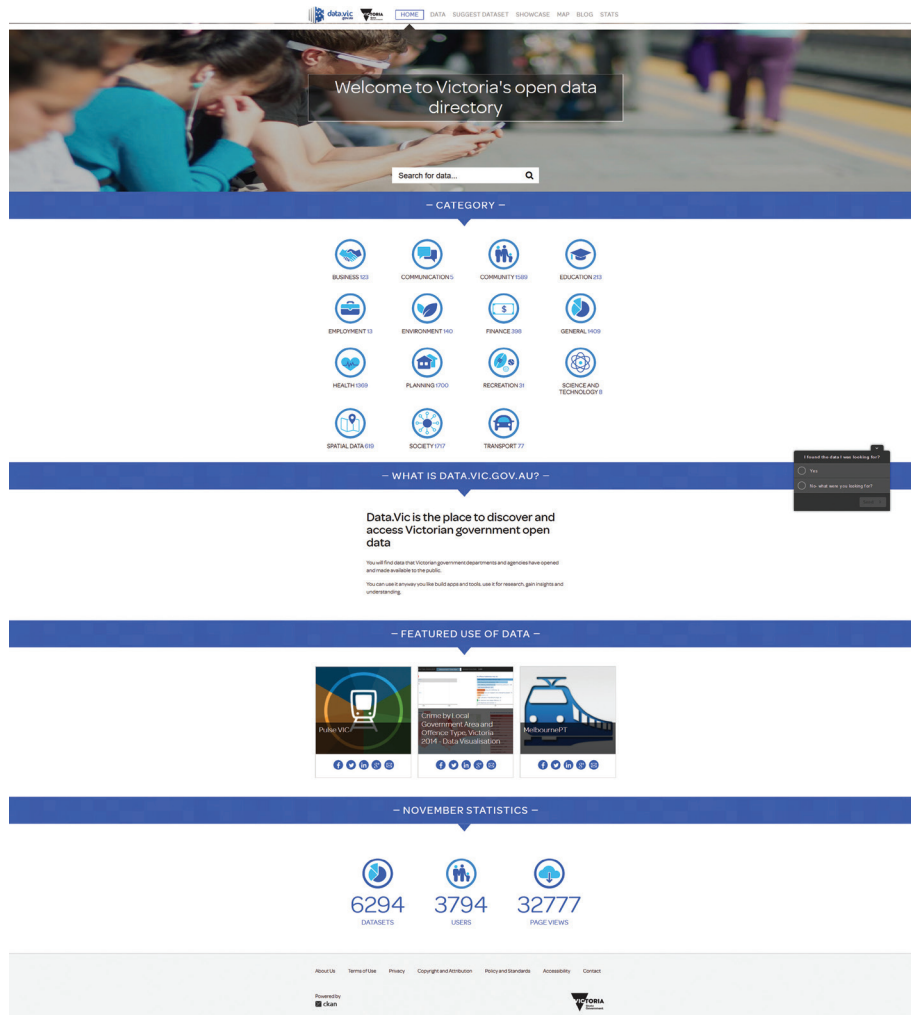
⁴¹⁶ Department of Treasury and Finance, *DataVic Access Policy Guidelines for the Victorian Public Sector (Version 2.1)* (2016), p.1

Access to Victorian Public Sector Information and Data report by the EDIC in 2009.⁴¹⁷ A summary of the recommendations of the 2009 EDIC inquiry are in Appendix 1. Data portals allow users to search, locate, download and reuse data for commercial or non-commercial purposes, using common metadata profiles (mostly under broad licensing arrangements such as Creative Commons).⁴¹⁸

In Australia, government data portals containing public sector information now operate at the Commonwealth level and across all jurisdictions with the exception of the Northern Territory.

Figure 8.1 shows the home page of the DataVic website. The interface is typical of the government data portals around Australia, with the search function displayed prominently, the number of datasets falling into relevant categories such as transport, planning and health, some special features showcasing the use of data and website statistics.

Figure 8.1 Home page of data.vic.gov.au



Source: <<https://www.data.vic.gov.au>>, viewed 6 December 2017

417 Economic Development and Infrastructure Committee, *Inquiry into Improving Access to Victorian Public Sector Information and Data - Final Report* (2009), Recommendation 35, p.137

418 Victorian Auditor-General's Office, *Access to Public Sector Information* (2015), p.5

The *DataVic Access Policy* commenced in 2012. The *DataVic Access Policy Guidelines for the Victorian Public sector* ('the guidelines') apply to all public sector agencies.⁴¹⁹ Although the guidelines state that the Department of Treasury and Finance and the Department of Premier and Cabinet are jointly responsible for the whole of Victorian Government implementation of the *DataVic Access Policy*⁴²⁰, the Department of Premier and Cabinet informed the Committee that 'responsibility for the *DataVic Access Policy* and Guidelines transferred to DPC from DTF in October 2017'.⁴²¹ This is a result of a wider transfer of all Victorian information management policies and services to the Department of Premier and Cabinet, which is discussed further in section 8.2.1.

The *DataVic Access Policy Guidelines* provide:

- the policy intent and principles⁴²²
- guidance on identifying what data should and should not be made publicly available on the website, including establishing processes to make datasets available following Freedom of Information requests⁴²³
- information on the preparation of datasets before making them publicly available including guidance on file formats, de-identifying and aggregating data and preparing a data quality statement⁴²⁴
- licencing and copyright information⁴²⁵
- information on developing and procuring datasets, together with the authorisation process for data commercialisation arrangements, should this be necessary⁴²⁶
- accountability for datasets, together with the custodianship framework which identifies six key roles: Owner, Information Management Group, Information Management Governance Committee (IMGC), Custodian, Administrator and User⁴²⁷
- reporting requirements covering the compliance requirements for the Department responsible for the policy to the Minister for Finance, data directory reporting posted on the webpage regarding usage statistics and annual reporting requirements for departments and agencies.⁴²⁸

419 As defined in the *Financial Management Act 1994*

420 Department of Treasury and Finance, *DataVic Access Policy Guidelines for the Victorian Public Sector (Version 2.1)* (2016), p.4

421 Department of Premier and Cabinet, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.23

422 Department of Treasury and Finance, *DataVic Access Policy Guidelines for the Victorian Public Sector (version 2.1)* (2016), p.2

423 *ibid.*, pp.6-12

424 *ibid.*, pp.13-17

425 *ibid.*, pp.17-21

426 *ibid.*, pp.25-29

427 *ibid.*, pp.30-31

428 *ibid.*, pp.32-33

The *DataVic Access Policy Guidelines* is referred to in other Government Information Management documentation that includes the Model Report, which provides guidance on departmental annual reporting requirements, as well as the *Information Management Framework for the Victorian Public Service* (May 2017) and the *IM-STD-03 Information Management Governance Standard* (September 2017).

FINDING 77: The *DataVic Access Policy* was established in 2012 with responsibility for the guidance of the policy transferred from the Department of Treasury and Finance to the Department of Premier and Cabinet in October 2017.

8.2.1 Recent actions regarding data access in Victoria

Recent developments in terms of public sector information indicate a return to a centrally-based, whole-of-government approach that was initially recommended in the 2009 EDIC inquiry (see Appendix 1). Public sector information management policy and guidance is now based in the Department of Premier and Cabinet, and overseen by the Special Minister for State. The Department has established the Enterprise Solutions branch in the Governance Policy and Coordination group which:

... develops and delivers strategy for information management and technology across government...

... [and] produces frameworks and policy for whole-of-government information management and technology, facilitates standardisation for government corporate systems, reports on the status of government ICT projects, manages cyber-security alerts and strategy, operates ICT governance training, and chairs the cross-government CIO Leadership Group for Victoria.⁴²⁹

The Enterprise Solutions branch is responsible for the Victorian *Government Information Strategy 2016-2020* and the associated Action Plan that is reported on and updated annually. The Government's Information Management agenda has also seen the *Victorian Data Sharing Bill 2017* legislation recently passed by the Parliament. This Act will see the appointment of the office of the Victorian Chief Data Officer who has powers to formally request data from agencies in order to:

... conduct data integration and data analytics work to inform government policy making, service planning and design, to build capability in data analytics across the public sector, to coordinate data sharing and integration on behalf of the state of Victoria, to make integrated data sets and the results of data analytics work available to data sharing bodies and designated bodies and to collaborate with these bodies, and any other functions incidental to these functions...⁴³⁰

⁴²⁹ Department of Premier and Cabinet, *2016-17 Annual Report* (2017), p.108

⁴³⁰ *Explanatory Memorandum, Victorian Data Sharing Bill 2017* (2017), Clause 7, p.2

The Government has also established the Victorian Centre for Data Insights (VCDI) which will be led by the Victorian Chief Data Officer. The Department of Premier and Cabinet informed the Committee that:

With the VCDI working across government to better use data for decision making, further opportunities exist in identifying data from across government for public release.⁴³¹

FINDING 78: Recent actions by the Government indicate a centralised approach for the management of access to public sector data, including dedicated legislation, the creation of the Victorian Chief Data Officer and ministerial oversight. The newly formed Victorian Centre for Data Insights headed by the Victorian Chief Data Officer will operate out of the Department of Premier and Cabinet.

8.3 Benefits of the *DataVic Access Policy*

In 2015 the Victorian Auditor-General criticised the lack of information regarding the policy's benefits, including the absence of a framework to measure the achievement of the policy's intended outcomes, in the *Access to Public Sector Information* report.⁴³² A summary of the report's findings and recommendations is in Appendix 1.

The *DataVic Access Policy Guidelines* state the benefits include:

- stimulating economic activity and driving innovation and new services to the community and business;
- increasing productivity and improving personal and business decision making based on improved access to data;
- improving research outcomes by enabling access to primary data to researchers in a range of disciplines; and
- improving the efficiency and effectiveness of government by encouraging better management practices and use of the data.⁴³³

As part of this inquiry, the Committee asked departments and selected agencies who the major beneficiaries of the datasets are, and to list three examples demonstrating the benefits of the policy. The Committee found most departments and agencies were unable to directly answer these questions, indicating little progress since 2015. Four departments noted that as the Department of Premier and Cabinet and the Department of Treasury and Finance

⁴³¹ Department of Premier and Cabinet, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.23

⁴³² Victorian Auditor-General's Office, *Access to Public Sector Information* (2015), p.17

⁴³³ Department of Treasury and Finance, *DataVic Access Policy Guidelines for the Victorian Public Sector (Version 2.1)* (2016), p.1

are responsible for the website, they do not have information on this issue.⁴³⁴ Further to this the Department of Economic Development, Jobs, Transport and Resources informed the Committee that while the Department of Premier and Cabinet provides data usage information to departments, this does not include *who* is using it, only *what* has been most frequently downloaded, which is done anonymously.⁴³⁵

The Committee finds the lack of progress on this issue to be a major shortcoming. The Victorian Auditor-General in 2015 notes:

DTF needs to revise its approach to implementing the DataVic access policy by:

- helping agencies move from a quota focus to prioritising the publication of high-value data collections
- developing and applying an evaluation framework to better understand the potential and realised benefits, as the basis for better using resources to deliver on the intended benefits
- integrating the policy into a more comprehensive whole-of-government IM framework.⁴³⁶

With the recent establishment of the Victorian Centre for Data Insights, and the creation of the role of the Victorian Chief Data Officer, the Committee believes there is a new opportunity to develop a mission statement on the purpose and uses of public sector data, maximising the DataVic website's potential and its impact. As the Department of Economic Development, Jobs, Transport and Resources informed the Committee:

Improving visibility of the use of data released through DataVic would assist departments and agencies better prioritise data for release.⁴³⁷

FINDING 79: Departments and agencies do not know who the major beneficiaries are of the data uploaded onto the DataVic website. As a result, reporting information on the policy in departmental annual reports is largely limited to the number of datasets made available on the website.

⁴³⁴ Department of Health and Human Services, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 6 November 2017, p.52; Department of Education and Training, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.51; Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, p.103; Department of Justice and Regulation, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.53

⁴³⁵ Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, p.103

⁴³⁶ Victorian Auditor-General's Office, *Access to Public Sector Information* (2015), p.17

⁴³⁷ Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, p.103

RECOMMENDATION 37: The Victorian Centre for Data Insights:

- (a) develop a mission statement on the purpose and uses of public sector data
- (b) undertake research into the use of data available and downloaded from the DataVic website, establishing the potential and realised benefits of the policy
- (c) communicate the outcomes and findings of this research to Victorian Government Departments and agencies.

8.3.1 Beneficiaries of the *DataVic Access Policy*

In the absence of verifiable information, the departments and agencies were only able to suggest or provide anecdotal evidence to the Committee as to who the major beneficiaries of the data may be. The following groups of users were identified in the departments' and agencies' questionnaire responses.

Researchers

This includes academic and government researchers, as well as interested members of the public acting as 'citizen researchers', or interested parties wishing to make commercial decisions based on the available data. Examples provided by departments and agencies demonstrate the wide scope of topics that Government departments and agencies can cover. The Department of Justice and Regulation informed the Committee:

... based on usage statistics of the department's most frequently accessed datasets, it can be assumed that the following groups are the major beneficiaries:

- Researchers and students accessing crime statistics
- Small business accessing liquor licencing data by location
- Researchers and students accessing liquor and gaming populations density and gaming expenditures statistics
- Parents accessing popular baby names
- Road users accessing road safety camera data and locations
- Researchers and students accessing birth, deaths and marriages life events data.⁴³⁸

The Department of Education and Training noted:

The datasets most commonly downloaded from DataVic fall into two main categories, which may imply particular users and benefits.

The first group of datasets relates to school details and locations, school FTE enrolments, school attendance rates and kindergarten participation rates. This data would potentially be of benefit to help Victorians make better-informed decisions about school selection. This type of data might also be of benefit to businesses seeking to understand and scope the school setting as a market opportunity.

⁴³⁸ Department of Justice and Regulation, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November, p.53

The second group relates to health information such as breastfeeding rates and vaccination rates, data about school support programs and post school destinations, and also datasets that have been generated from the Victorian Child and Adolescent Monitoring System (VCAMS). This data may be of interest to researchers in a range of disciplines.⁴³⁹

FINDING 80: Public sector information available on the DataVic portal covers a wide variety of topics including crime statistics and post school pathways. It has been used by members of the community for both formal and informal research purposes. Data relating to public transport and school locations is also frequently downloaded from the website.

Users pursuing commercial opportunities

This category includes third party developers who are able to transform the data into products available to other users. Public Transport Victoria informed the Committee this includes:

Third party application developers [who] are using the application programming interfaces (APIs) provided on the DataVic website for information rich applications on mobile devices.⁴⁴⁰

The use of Public Transport Victoria data on the 'MelbournePT' app for public transport timetables is currently showcased on the DataVic website.⁴⁴¹ Public Transport Victoria data such as timetable and journey planning is also available in services such as Google and Apple Maps.⁴⁴²

FINDING 81: Third parties can transform data on DataVic into applications for mobile devices, reaching large numbers of people who require information about government services, such as public transport timetables and locations.

In relation to the commercialisation of datasets, the *DataVic Access Policy Guidelines* currently state:

Releasing government datasets at no or minimal cost will create more opportunities for the community to engage with data and for the private sector to reuse and add value to datasets. Making datasets freely available is the State's default position and where possible agencies must make data available with minimum restrictions, including the removal of cost barriers.⁴⁴³

The Guidelines further state that datasets cannot be commercialised unless an agency has an explicit statutory function to do so, or has been given explicit authorisation by the Minister for Finance as there is a clear net benefit to the

⁴³⁹ Department of Education and Training, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.51

⁴⁴⁰ Public Transport Victoria, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, p.17

⁴⁴¹ <https://www.data.vic.gov.au/showcase/melbournept>, viewed 23 November 2017

⁴⁴² Public Transport Victoria, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, p.17

⁴⁴³ Department of Treasury and Finance, *DataVic Access Policy Guidelines for the Victorian Public Sector (Version 2.1)* (2016), p.26

Victorian community.⁴⁴⁴ According to the questionnaire responses sent to the Committee, none of the departments and agencies have datasets that have been given approval by the Minister for Finance for commercialisation. Nevertheless, the Committee believes the current guidance on commercialisation of public sector data should be made more explicit in order to assist the VCDI.

RECOMMENDATION 38: Guidance on the commercialisation of datasets is reviewed and updated in light of the recent establishment of the Victorian Centre for Data Insights.

Other related service agencies

Entities that have extensive physical assets such as the water corporations noted that their data, particularly relating to asset location and condition, is increasingly used in conjunction with other utility agencies, as well as other stakeholders. In explaining the benefits of the *DataVic Access Policy*, Yarra Valley Water informed the Committee:

The principal benefit has been improved business decision making through increased access to geospatial data by local government and land developers. The real benefits will come when other utilities such as gas and telecommunications release their data so that we can use technologies such as Augmented Reality in the field to see all suspected assets underground and prevent accidental damage of other utilities' assets.⁴⁴⁵

Yarra Valley Water also noted that it is planning:

[The] Release of other data sets that may be of interest to other companies, utilities, government authorities, researchers and the public. We are looking at releasing our burst and planned maintenance works next, so that better planning in relation to other utilities could occur. For example, they can see where we are planning on working and share some project costs e.g. Only doing a single road excavation when replacing gas and water mains in ageing areas.⁴⁴⁶

Similarly, Melbourne Water noted the following three principal benefits of publishing their data sets:

- Broader community awareness and engagement in relation to our assets
- Reduced conflict and costs associated directly with a reduction of damage to our assets
- Improved communication and collaboration between parties (e.g. Retailers and Wholesaler).⁴⁴⁷

FINDING 82: The combined asset location and condition data provided by water corporations and other utilities to the DataVic website has the potential to improve planning, prevent accidental damage to assets and reduce overall project costs.

⁴⁴⁴ *ibid.*, p.27

⁴⁴⁵ Yarra Valley Water, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.18

⁴⁴⁶ *ibid.*

⁴⁴⁷ Melbourne Water, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.17

Making high value datasets publicly available on the DataVic website

The responses from Public Transport Victoria and water corporations indicate the potential uses for data available on the DataVic website, beyond research functions. The Committee believes it is time to fully investigate the applicability of DataVic, and switch the current website information focus from numbers of datasets available, number of page views and numbers of datasets departments have made available to promoting ‘high value datasets’, ensuring these are regularly updated and available to the public.

In its recent *Data Availability and Use* report, the Productivity Commission discussed the merits of establishing National Interest Datasets (NIDs), defined in its broadest terms as a subset of ‘datasets that are likely to contribute significant value to the economy and society.’⁴⁴⁸ At the State level, it may be more important for up-to-date datasets relating to health, education and transport services to be made available on the DataVic website. An overview of the findings of the Productivity Commission’s report can be found in Appendix 1.

The Department of Premier and Cabinet already has some understanding of the most popular, or at least most downloaded datasets, from the website statistics. While popularity may offer some guide, the Productivity Commission noted at the national level:

On data.gov.au, users are already able to suggest datasets for release and vote for datasets suggested by others. This offers a mechanism for ranking datasets for release. However, popularity is not necessarily the best indicator of the value of a particular dataset — it might simply reflect that there are many potential users, not that the intended uses are of significant value.⁴⁴⁹

Public Transport Victoria informed the Committee of four datasets that have been uploaded over the last two financial years on the location of bus and tram stops, train track routes and stations, tram routes, regional and metropolitan bus routes and bike and car parking facilities at train stations.⁴⁵⁰ These may not amount to a great number of datasets uploaded to DataVic, and are not likely to be downloaded by large numbers of public transport users in the compliant document form.⁴⁵¹ However, they are likely to be transformed by third party developers into products (e.g. apps for mobile devices) that reach many people. The Committee considers such datasets primary contenders for high value dataset assignment.

The Committee also considers the newly formed Victorian Centre for Data Insights (VCDI) being in an ideal position to identify high value datasets, particularly after undertaking a research exercise outlined in recommendation 37.

⁴⁴⁸ Productivity Commission, *Data Availability and Use* (2017) p.283

⁴⁴⁹ *ibid.* p.243

⁴⁵⁰ Public Transport Victoria, *Response to the Committee’s 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, pp.19-20

⁴⁵¹ These are available for download on the DataVic website as ESRI Shape files, which are used for spatial mapping.

RECOMMENDATION 39: The Victorian Centre for Data Insights:

- (a) establish a set of high value datasets for each department and agency in consultation with them
- (b) ensure that these high value datasets are on the appropriate asset registers
- (c) ensure that these high value datasets are available and kept up-to-date on the DataVic website
- (d) ensure that the list of high value datasets is regularly reviewed.

8.3.2 Challenges identified by the Departments and Agencies in implementing the *DataVic Access Policy*

When asked by the Committee about the challenges in implementing the *DataVic Access Policy*, departments and agencies identified the following issues:

- a limited awareness within the organisation of the DataVic portal⁴⁵²
- data collection undertaken by departments and agencies often relates to personal information, and this is unsuitable for public release⁴⁵³
- some of the agencies within the public non-financial corporations (PNFC) sector that run along more commercial lines than Government departments noted that there is commercial sensitivity surrounding some of their data.⁴⁵⁴

The larger departments noted the breadth and depth of their data collection made it difficult to assess what could be simplified and shared publicly. As the Department of Education and Training noted:

The Department's investment focus is primarily on the education system and, while we have been working in recent years to improve data quality and processes, this work has been fed by operational and strategic drivers which do not necessarily include consideration of data release beyond the original purpose. Strong, high value public data sets require investment in data integration and extraction, re-formatting and de-identification, and there are limited resources available across government to support this work within departments and agencies. Similarly, while data is a key tool for the Department, we have limited resources to support and promote the DataVic policy across the Department, which is a large devolved system, with necessary strategies such as change management, business engagement and support.⁴⁵⁵

⁴⁵² Alfred Health, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 6 November 2017, p.17; WorkSafe Victoria, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, pp.19-20

⁴⁵³ Victoria Police, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.18; Department of Education and Training, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.50; Transport Accident Commission, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, p.17

⁴⁵⁴ Public Transport Victoria, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, p.16; Yarra Valley Water, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.17

⁴⁵⁵ Department of Education and Training, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.50

There are also legislative constraints for data collated by departments that may not correspond to what is appropriate for release onto DataVic. For example the Department of Health and Human Services informed the Committee:

A wide range of legislative requirements apply to a significant amount of the data held by the department, including program-specific, and some are national legislation. National legislative requirements for some requests to be considered by a Human Research and Ethics Committee add to the complexity to the release of data.⁴⁵⁶

Risks identified by the departments and agencies were mainly concerned with privacy and security issues in the form of de-identification of data to ensure that any further re-identification is not possible,⁴⁵⁷ data quality and currency⁴⁵⁸ and data accuracy.⁴⁵⁹

FINDING 83: Challenges identified by departments and agencies in implementing the *DataVic Access Policy* include limited awareness internally, limited resourcing and difficulties in assessing what data would be suitable for public release. Privacy and security concerns are also some key risks.

8.4 The connection between public access to data and Freedom of Information legislation

In 2009 the EDIC Parliamentary inquiry report into public sector information and data discussed the nature of ‘push/pull models’ of access to information and the role of Freedom of Information (FOI) in Victoria within these models. The EDIC report explained that the pull approach ‘allow[s] for the release of information to individuals or organisations on request, provided access is not restricted for specific reasons (such as privacy or security)’ while the ‘push model emphasises proactive publication of information by government’.⁴⁶⁰

The report concluded, and made recommendations to the effect, that:

... government transparency and social engagement will likely be best enhanced by making generally available information about what kind of public sector information (PSI) government holds, in addition to the implementation of a systematic approach to determining appropriate PSI for release.⁴⁶¹

⁴⁵⁶ Department of Health and Human Services, *Response to the Committee’s 2016-17 Financial and Performance Outcomes General Questionnaire*, received 6 November 2017, p.52

⁴⁵⁷ Department of Justice and Regulation, *Response to the Committee’s 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.52; Department of Education and Training, *Response to the Committee’s 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.50

⁴⁵⁸ Department of Justice and Regulation, *Response to the Committee’s 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.52

⁴⁵⁹ Department of Treasury and Finance, *Response to the Committee’s 2016-17 Financial and Performance Outcomes General Questionnaire*, received 13 November 2017, p.50; Melbourne Water, *Response to the Committee’s 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.16

⁴⁶⁰ Economic Development and Infrastructure Committee, *Inquiry into Improving Access to Victorian Public Sector Information and Data – Final Report* (2009), p.18

⁴⁶¹ *ibid.*

Elements of the *DataVic Access Policy* can be seen in this light: the asset register serves to inform members of the public about what data the government holds and the DataVic portal itself serves as a directory that contains publicly accessible Government data. The original intention of the EDIC's recommendations regarding a whole of government information management framework (IMF) was to allow greater access to the data held by Government and ultimately reduce the FOI request burden on departments and agencies by placing as much data in the public domain as possible.⁴⁶²

In 2012 a report into FOI by the Victorian Auditor-General noted that:

The FOI Guidelines state that 'freedom of information applications should be a means of last resort to gain access to information on the policies and activities of government.' The FOI guidelines further encourage agencies to consider ways of releasing information outside the FOI process and on a regular and proactive basis.⁴⁶³

This report concluded that departments were not meeting their obligations under Part II of the Act.⁴⁶⁴ Part II of the Act requires departments and agencies to publish a statement every year detailing their organisation and functions, the categories of documents they keep and how they may be accessed, documents used to make decisions affecting the rights of members of the public as well as documents used in administering laws or schemes affecting the public.⁴⁶⁵ In 2015 the Auditor-General found departments and agencies were still not providing thorough registers of the information they hold, and were instead providing 'a general statement and, at best, a snapshot of the kinds of documents they hold'.⁴⁶⁶

In 2016 the Government announced an overhaul of the FOI system in Victoria.⁴⁶⁷ This includes the creation of the Office of the Victorian Information Commissioner (OVIC), with the previous roles of the FOI Commissioner and Commissioner for Privacy and Data Protection combined into the Information Commissioner, supported by a Public Access Deputy Commissioner, overseeing FOI issues, and a Privacy and Data Protection Deputy Commissioner. This means that Victoria now operates under 'a single regulator to oversee Victoria's FOI, public sector privacy and data protection laws, and provide independent advice to government across those closely-related fields'.⁴⁶⁸

⁴⁶² *ibid.*, pp.17-20

⁴⁶³ Victorian Auditor-General's Office, *Freedom of Information* (2012), p.12

⁴⁶⁴ *ibid.*, pp.12, 17

⁴⁶⁵ *Freedom of Information Act (1982)* sections 7, 8 and 11

⁴⁶⁶ Victorian Auditor-General's Office, *Access to Public Sector Information* (2015), p.13

⁴⁶⁷ Hon. Gavin Jennings MP, Special Minister of State, *Improving transparency for Victorians* (Media release, 24 May 2016)

⁴⁶⁸ Office of the Victorian Information Commissioner, <<https://www.vic.gov.au/news/office-of-the-victorian-information-commissioner.html>>, media release, 24 May 2016, viewed 12 December 2016

8.4.1 Datasets compiled as a result of Freedom of Information requests

The *DataVic Access Policy* guidelines contain a provision for datasets that are made available via Freedom of Information requests to also be made accessible on the DataVic website. The guidelines state:

Datasets made available under a freedom of information request must be considered for release under the Policy. The release of data via the Data Directory is consistent with the intent and language of the Freedom of Information Act 1982. Datasets will still need to be assessed as supporting the Policy intent and not breaching any restrictions. The time requirements stipulated under the Freedom of Information Act 1982 do not apply to the Policy.⁴⁶⁹

The Committee asked departments and agencies about the number of datasets compiled as a result of FOI requests that had been made available on the DataVic website over the last two financial years. The Committee also asked whether any such datasets had not been made available onto DataVic due to privacy restrictions or similar factors.

The responses indicate there is limited awareness of this element of the *DataVic Access Policy* guidelines. There were no departments or agencies that compiled or collected data as a result of an FOI request that subsequently made this available on the DataVic website. Furthermore some departmental responses indicated they were not familiar with this obligation under the policy. The Department of Economic Development, Jobs, Transport and Resources, for example, informed the Committee:

The department does not compile datasets in response to FOI requests, rather it releases documents and data it holds in response to FOI requests. The *Freedom of Information Act 1982 (Vic)* does not mandate the publishing of successful FOI applications, in contrast to the Commonwealth legislation. The department publishes information concerning FOI applications within its Annual Report, as provided for in section 7 of the *Freedom of Information Act 1982 (Vic)*.⁴⁷⁰

Only one agency, VicRoads, appeared to be operating under the pro-release model of information envisaged in the 2009 Parliamentary inquiry report:

VicRoads had already provided the data sets to DataVic and has seen a corresponding decline in publicly classified information requests as a result.⁴⁷¹

FINDING 84: There is limited awareness or adherence to *DataVic Access Policy* guidelines regarding datasets compiled as a result of Freedom of Information requests amongst departments and agencies.

⁴⁶⁹ Department of Treasury and Finance, *DataVic Access Policy Guidelines for the Victorian Public Sector (Version 2.1)* (2016), p.8

⁴⁷⁰ Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, p.105

⁴⁷¹ VicRoads, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, p.19

Factors inhibiting Freedom of Information datasets being made available on the DataVic website

The Committee understands that managing FOI requests is a time consuming and resource-intensive activity, particularly for the larger departments, such as the Department of Education and Training and the Department of Health and Human Services. After identifying 10 datasets compiled as result of FOI requests made over the last two financial years, the Department of Education and Training informed the Committee:

DET manages a high volume of FOI requests every year. The majority of these requests relate to either the retrieval of personal information for an individual (e.g. school records), or the retrieval of information about an incident as part of legal proceedings. The information retrieved in these requests is personal and sensitive, and requires careful case-by-case evaluation before making decisions about its release. In the case of the 10 datasets noted above that have some potential for broader use, there is certainly potential for release, but in most cases the collated datasets related to a particular time period, which would be less valuable without the establishment of mechanisms to build larger and updated datasets.⁴⁷²

Similarly, after identifying 45 datasets via FOI requests over the last two financial years, the Department of Health and Human Services explained:

The datasets compiled contained information not suitable for release, such as personal information and commercial/cabinet in confidence information, which was redacted as appropriate for release under Freedom of Information. The datasets were converted to PDF format to facilitate redaction, and presented to the applicant as documents.

The redactions mean the data cannot be provided in full and is in an unsuitable format. Wider release therefore risks misinterpretation and limits the anticipated benefits of release under the policy in improving decision-making and research outcomes, or improving efficiency and effectiveness of government and management practices.

However, if there are Freedom of Information requests that result in meaningful datasets that can be made available in the required formats, the department will make these available on the DataVic website as appropriate.⁴⁷³

Other smaller agency and departmental responses indicate FOI requests were too specific to be of general public interest (Department of Justice and Regulation), ad hoc in nature (Public Transport Victoria) and related to a specific date and thus is not collected as a time series or historical dataset.

The Committee believes there is a gap between the intended outcomes of this element of the *DataVic Access Policy* guidelines and the operational reality of FOI requests made to departments and agencies. Ideally, public sector

⁴⁷² Department of Education and Training, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.54

⁴⁷³ Department of Health and Human Services, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 6 November 2017, p.57

information would be made available on a directory such as DataVic, this would be kept up to date and easily accessed, and there would be a subsequent reduction in requests for information through avenues such as FOI.

In reality, FOI requests are specific in nature, often contain confidential information and are dealt with on a case by case basis. In order to reach the ‘pro information release’ outcomes envisaged in the *DataVic Access Policy* guidelines, a broader assessment of the nature of FOI requests would be required. This would entail establishing common issues or areas of inquiry regarding multiple FOI applications over time. It would also require sufficient resources to pool datasets in relevant topic or subject categories, together with dataset maintenance to ensure they stay up-to-date.

Donations and voluntary financial contributions to schools’ data — an example of the current system

On July 29 2017 the Herald-Sun published the article ‘Donations and sausage sizzles raise \$33.4 million for Victorian public schools to cover funding shortfall’. This article contained a dataset obtained through a FOI request listing the amount of money received by each Victorian Government school through donations and voluntary financial contributions over 2016.^(a)

This data has not been uploaded onto the DataVic website, although it seems to be an appropriate one under the *DataVic Access Policy* guidelines. A search of the DataVic website using the term ‘voluntary contributions to schools’ found a dataset entitled ‘Victorian State Schools-Voluntary Parent Payments’. The information on the webpage says the dataset was created on 23 March 2013 and last updated on 12 September 2016. The dataset has voluntary contributions made by parents to each government school for 2011, 2012 and 2013.

If the system was working as intended:

- the data would be identified through the FOI process as one suitable for uploading onto the DataVic website
- that dataset would appear on the department’s asset register
- the dataset would be made available on DataVic and be regularly updated
- out of date versions of the document would be removed from DataVic, and the latest version of the document would have the data in time series or historical format.
- there would not have been the need for an FOI application.

(a) Monique Hoare, ‘Donations and sausage sizzles raise \$33.4 million for Victorian public schools to cover funding shortfall’, Herald Sun, July 29 2017

FINDING 85: Factors inhibiting datasets compiled as a result of Freedom of Information requests being made available on the DataVic website include sensitivity and privacy, the ad hoc and specific nature of Freedom of Information requests which may not be of broad public interest and requests relating to specific time periods.

RECOMMENDATION 40: The Victorian Centre for Data Insights assist departments in reviewing successful Freedom of Information requests over the last five years to identify data that is suitable for release onto the DataVic website. The identified datasets should then be placed on the appropriate asset registers, uploaded and regularly updated on the DataVic website.

8.5 Ease of use and functionality of the website

In 2015 the Victorian Auditor-General's *Access to Public Information* report identified a number of weaknesses with the DataVic portal, including:

- unclear data ownership, whereby the number of datasets listed by organisation can differ from a search undertaken under the organisation's name
- broken links to datasets, often with the portal sending the user to the agency website where the page will no longer exist
- incomplete metadata profiles
- poor data quality statements.⁴⁷⁴

As discussed earlier, the DataVic website now contains statistics with respect to the usage of the site (i.e. number of visits) and the total number of datasets. Information on the number of revisions per week, the most edited datasets, datasets by organisation and the most active organisations is also available.

The DataVic website provides opportunities for users to give feedback through pop up surveys asking if the user's visit was useful and through a 'Suggest a Dataset' form. Responses from departments and agencies regarding this function indicate this information is reported back to departments throughout the year.

The website has a 'showcase page' which provides seven 'submissions' detailing applications which have been developed using public sector data. However it is not clear if this is a sample of innovative developments which have resulted from the availability of data or an exhaustive list. The showcase examples on the website are also now two and a half years old, dating from mid-2015. However, the page dedicated to blog posts detailing information on recent data uploads or upcoming events using Government data is up-to-date.

The assessment of the functionality of the DataVic website undertaken for this inquiry is not exhaustive and it is difficult to say if it has improved since the 2015 Auditor-General's report. However the Committee notes:

- the search function is not systematic and can create long lists of datasets that are not related to the terms used in the search
- broken links to datasets remain

⁴⁷⁴ Victorian Auditor-General's Office, *Access to Public Sector Information* (2015), p.16

- many datasets are out-of-date
- datasets that could be uploaded on one annually-updated excel file still appear as separate files.

Splitting up datasets, or not combining yearly data into one overarching, annually-updated file to form a time series or historical dataset, was also commented on by the Victorian Auditor-General in the 2015 report, which noted that departments were required to reach quotas in terms of datasets made available on the website prior to January 2015.⁴⁷⁵ According to the Auditor-General, this led to departments ‘releasing low value data and splitting their large datasets into many smaller ones’.⁴⁷⁶ The legacy of the pre-2015 quota approach to datasets still affects the DataVic website’s functionality.

This assessment of DataVic website points to the need for ongoing maintenance. In its recent report into data availability, the Productivity Commission uses the term ‘curation’, noting ‘[d]atasets often require significant ongoing work after collection to ensure usability across time’.⁴⁷⁷ While the Committee recognises this is resource-intensive and time consuming, it believes this is an essential activity to ensure the DataVic website functions as it is intended.

Curating the DataVic website appropriately would include:

- identifying datasets that can be compiled into one excel spreadsheet that is updated annually
- removing out-of-date datasets
- checking links to downloadable data to see if they are still active.

These activities would run in tandem with the uploading of new datasets that are identified through processes such as the continual maintenance of asset registers, the identification of high value datasets and datasets reflecting the subject matter of FOI requests being uploaded.

FINDING 86: Limitations of the DataVic website’s functionality include a poor search function, broken links to data and out-of-date data.

RECOMMENDATION 41: The Department of Premier and Cabinet, through the Victorian Centre for Data Insights, actively curate the DataVic website, including:

- ensuring data is available in an excel or similar format that is easily downloaded
- identifying datasets that can be compiled into one excel spreadsheet that is updated annually
- removing out-of-date datasets
- checking links and downloadable data to see if they are still active.

⁴⁷⁵ *ibid.*, p.15

⁴⁷⁶ *ibid.*

⁴⁷⁷ Productivity Commission, *Data Availability and Use* (2017) p.260

8.6 Annual reporting on the *DataVic Access Policy*

The *2016-17 Model Report for Victorian Government Departments* provides guidance to Government departments and entities in terms of reporting activity and achievements connected to the *DataVic Access Policy* over the year. The guidance provides a compliance statement for inclusion in annual reports, outlining what the *DataVic Access Policy* is and indicating the department or agency has uploaded financial statements, performance statements and tables included in the annual report onto the DataVic website.⁴⁷⁸ The guidance also suggests that departments and agencies list possible achievements for inclusion in the annual reports such as:

- outcomes against targets for the previous year's program of works
- a list of categories of datasets that have been made available
- suggestions received in respect of datasets and actions taken as a result of those suggestions
- details of any feedback received on datasets and actions taken on that feedback
- any benefits realised from making specific datasets available
- strategies and actions planned for the coming year, including categories of datasets to be made available.

A review of the disclosures made in the 2016-17 annual reports by the seven main departments in relation to the *DataVic Access Policy* found that:

- all seven departments with the exception of the Department of Justice and Regulation, met the minimum reporting requirement. That is, the departments' annual reports contained the compliance statements regarding information on what the DataVic Access Policy is and the statement indicating financial statements, performance statements and tables included in the annual report have been uploaded onto the DataVic website
- the Department of Treasury and Finance, the Department of Economic Development, Jobs, Transport and Resources, the Department of Environment, Land, Water, Planning and Department of Health and Human Services each included a count of the number of datasets which have been made available to the DataVic website over 2016-17

⁴⁷⁸ These statements are: 'The Victorian Government's DataVic Access Policy enables the sharing of Government data at no, or minimal, cost to users. The policy intent is to support research and education, promote innovation, support improvements in productivity and stimulate growth in the Victorian economy as well as enhance sharing of, and access to, information rich resources to support evidence based decision making in the public sector. Government data is progressively published in a machine readable format on <https://www.data.vic.gov.au>, to minimise access costs and maximise use and reuse...'

'Consistent with the DataVic Access Policy issued by the Victorian Government in 2012, the financial statements, performance statements and tables included in this Annual Report will be available at <https://www.data.vic.gov.au> in machine readable format'. (Department of Treasury and Finance, *DataVic Access Policy Guidelines for the Victorian Public Sector (Version 2)* (2016), p.33)

- the Department of Economic Development, Jobs, Transport and Resources further noted in its compliance statement that ‘the data has been mainly categorised by spatial planning, and geological and geophysical categories’⁴⁷⁹
- of all the departmental annual reports, the Department of Health and Human Services provided the most information in its DataVic compliance statement regarding data that has been made publicly available over 2016-17. This included information on where to find data compiled by the department on its various websites, an extensive list of health and community services-related datasets that are available for public access and website pages for statistics and research provided by other health bodies such as the Cancer Council and Australian Institute for Health and Welfare⁴⁸⁰
- neither the Department of Premier and Cabinet and the Department of Treasury and Finance included any details of the success or achievements of the *DataVic Access Policy* in their annual reports, despite the two departments holding joint responsibility for the whole of Victorian Government implementation of the *DataVic Access Policy* from 2012 until October 2017, after which time the Department of Premier and Cabinet assumed total responsibility.⁴⁸¹

FINDING 87: The Department of Justice and Regulation did not include a statement of compliance with the *DataVic Access Policy* in its *2016-17 Annual Report* as required by the Model Report guidance.

FINDING 88: Very limited additional information has been provided in the 2016-17 departmental annual reports in relation to the *DataVic Access Policy* achievements, with the exception of the Department of Health and Human Services. Information largely relates to the number of datasets made available on the DataVic website.

8.7 Asset registers

One of the key pieces of guidance of effective data release under the *Data Vic Access Policy* is the establishment and maintenance of a departmental or agency asset register. In the 2015 report, the Auditor-General noted ‘[t]he most critical [tool] is a comprehensive, accessible information asset register, supported by a consistent approach to the proactive release of PSI’ and found that the three agencies it examined⁴⁸² as part of the audit ‘do not publish this type of register and have not applied a consistent cross-agency approach to the proactive release of the PSI that they hold’.⁴⁸³ The Auditor-General then recommended:

⁴⁷⁹ Department of Economic Development, Jobs, Transport and Resources, *2016-17 Annual Report* (2017), p.286

⁴⁸⁰ Department of Health and Human Services, *Annual Report 2016-17* (2017), pp.85-86

⁴⁸¹ Department of Premier and Cabinet, *2016-17 Annual Report* (2017), p.147; Department of Treasury and Finance, *Annual Report 2016-17* (2017), p.133

⁴⁸² The Department of Health and Human Services, the State Revenue Office and the Department of Environment, Land, Water and Planning

⁴⁸³ Victorian Auditor-General's Office, *Access to Public Sector Information* (2015), p.11

That agencies develop a proactive public sector information release program, using comprehensive information asset registers as a core tool for release decisions in accordance with the Information Management Governance Standard.⁴⁸⁴

The *DataVic Access Policy* guidelines state:

Victorian Government Information Management Standards require agencies to create and maintain an information asset register. Using its registers agencies will be able to identify and manage datasets which can be made available to the public.⁴⁸⁵

Further to this, the *IM-STD-03 Information Management Governance Standard* of the *Information Management Framework for the Victorian Public Service*, which applies to all departments and Victoria Police states that departments must:

Implement a department Information Asset Register (IAR) that:

- registers all significant information assets
- identifies and flags all critical information assets
- is accessible to all staff within your department
- assigns each information asset an owner and custodian (or equivalent)
- complies with the Information Asset Register Standard (under development)
- complies with Part II of the *Freedom of Information Act 1982*.⁴⁸⁶

The Standard also requires departments to ‘contribute to the WoVG Information Asset Register’ which is a ‘requirement under the proposed [now passed] Data Sharing Legislation. It is flagged for development and implementation in 2017/2018’.⁴⁸⁷

The Committee is pleased that there has been some progress made regarding asset registers. With the exception of the Department of Environment, Land, Water and Planning, all departments and Victoria Police indicated they have asset registers, which is in line with the *IM-STD-03 Information Management Governance Standard*.

In addition to the departments, a number of other agencies indicated they had also established asset registers, such as Public Transport Victoria, South East Water, VicRoads, Yarra Valley Water, Treasury Corporation of Victoria, the Victorian Managed Insurance Authority (VMIA) and WorkSafe. Melbourne Water, VicTrack and Transport Accident Commission all indicated they were in the process of establishing an asset register.

Departments and agencies that indicated they had established an asset register mostly update and review their asset registers annually, although some agencies⁴⁸⁸ review and update their asset registers on an ongoing basis.

⁴⁸⁴ *ibid.*, pp.xiv, 18

⁴⁸⁵ Department of Treasury and Finance, *DataVic Access Policy Guidelines for the Victorian Public Sector (Version 2.1)* (2016), p.8

⁴⁸⁶ Department of Premier and Cabinet, *IM-STD-03 Information Management Governance Standard* (2017), p.2

⁴⁸⁷ *ibid.*

⁴⁸⁸ the Department of Health and Human Services, the Department of Treasury and Finance and VicRoads

In response to the Committee query regarding what types of information are logged on the asset registers, the departments and agencies demonstrated a wide array of information assets, ranging from physical assets, documents, reports, spatial data, customer information from PNFCs such as water corporations and claims data from insurers such as the VMIA. Some departments and agencies also had internal information related to finance, administration and staffing.

FINDING 89: With the exception of the Department of Environment, Land, Water and Planning, all departments and Victoria Police now maintain an asset register, in line with the *IM-STD-03 Information Management Governance Standard*. Most other agencies have an asset register in place, or are in the process of establishing one. A whole-of-government asset register is expected to be developed over 2017-18.

Spatial information, asset registers and the Department of Environment, Land, Water and Planning

The Department of Environment, Land, Water and Planning informed the Committee that:

While DELWP does not have a single asset register, it publishes a register of its spatial information. The Department is investigating the establishment of an enterprise-wide information asset register.⁴⁸⁹

In 2015 the Auditor-General noted the spatial information management services co-ordinated by the Department's Information Services Division was 'sophisticated' and demonstrated that in the specific area of spatial information 'it has highly developed management practices'.⁴⁹⁰ Spatial datasets are a key feature of the DataVic website, with a link on the homepage to the Australian Government's NationalMap website, that allows all spatial data provided by the Department of Environment, Land Water and Planning to be mapped on an interactive tool.⁴⁹¹

However in terms of a whole-of-department approach to information management and data release, the Department does not appear to have progressed this issue since the Auditor-General's 2015 report. The Committee also notes that while the Department of Environment, Land, Water and Planning indicated it is 'investigating' the establishment of a department-wide asset register, this is stipulated as compulsory under the *IM-STD-03 Information Management Governance Standard* for all departments issued in September 2017.⁴⁹²

FINDING 90: The Department of Environment, Land, Water and Planning does not have a single asset register, although it publishes a register of its spatial information.

⁴⁸⁹ Department of Environment, Land, Water and Planning, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.38

⁴⁹⁰ Victorian Auditor-General's Office, *Access to Public Sector Information* (2015), pp.24-5

⁴⁹¹ NationalMap, <<https://www.nationalmap.gov.au/#vic>>, viewed 11 December 2017

⁴⁹² Department of Premier and Cabinet, *IM-STD-03 Information Management Governance Standard* (2017), pp.2, 4

RECOMMENDATION 42: The Department of Environment, Land, Water and Planning establish a whole of department asset register, in line with the *IM-STD-03 Information Management Governance Standard*.

8.8 Accountability and governance arrangements in place for implementing *DataVic Access Policy*

The Committee asked the departments and various agencies about the accountability and governance arrangements within their organisation in relation to the *DataVic Access Policy*, together with the establishment of an Information Management Governance Committee (IMGC).

According to the *DataVic Access Policy* guidelines:

The agency head has overall accountability for implementing the Policy within their agency. This would typically be the Secretary of the Department or the CEO of the Agency. It is recommended, however, that the agency assign responsibility for the implementation of the Policy to an agency wide committee reporting to the agency head. The committee would monitor, report and steer the agency through making datasets available.

An agency's Information Management Governance Committee (IMGC) would be the recommended body to perform this function.⁴⁹³

The *DataVic Access Policy* guidelines also note 'Under whole of Victorian Government Information Management Standards, it is now mandatory to establish and maintain an Information Management Governance Committee (IMGC)'.⁴⁹⁴

The latest *Information Management Governance Standard* issued in September 2017 applies to all departments and Victoria Police and instructs these entities to:

Establish and maintain an internal Information Management Governance Committee (IMGC), or similar, that leads, monitors and reports on information management activities. The IMGC should be chaired by an executive-level officer, report to the department head (or a peak executive body chaired by the department head) and have representation from key business areas.⁴⁹⁵

The Committee found departments and agencies that are required to have an IMGC or similar under the *IM-STD-03 Information Management Governance Standard* now do so, with the exceptions of Victoria Police and the Department of Premier and Cabinet which is in the process of establishing an IMGC and noted to the Committee that this has been delayed through recent departmental restructuring. The Department of Economic Development, Jobs, Transport and Resources currently has an Information Management and Technology

⁴⁹³ Department of Treasury and Finance, *DataVic Access Policy Guidelines for the Victorian Public Sector (Version 2.1)* (2016), p.29

⁴⁹⁴ *ibid.*

⁴⁹⁵ Department of Premier and Cabinet, *IM-STD-03 Information Management Governance Standard* (2017), p.2

Governance Committee (IM&TGC), and although it informed the Committee this was in the process of being replaced, it did not indicate what arrangement was taking place of this.⁴⁹⁶

FINDING 91: With the exceptions of Victoria Police and the Department of Premier and Cabinet, all departments and agencies that are required to have an Information Management Governance Committee under *IM-STD-03 Information Management Governance Standard* now do so.

The *IM-STD-03 Information Management Governance Standard* is not compulsory for other agencies, although the *DataVic Access Policy* guidelines do apply to them. This guidance recommends an IMGC should be formed. The responses indicate a variety of governance arrangements, from none at all (Development Victoria) to unspecified alternative arrangements in place (Court Services Victoria).

Increasing amounts of guidance and standards relating to information management

The Committee understands that it may not be appropriate for some of the smaller agencies and statutory authorities to have an IMGC due to resource constraints and operational limitations or requirements.

However, the Committee is concerned with the expanding number of compliance and guidance documents that departments and agencies are required to conform to as part of their information management procedures and policies. The compulsory requirements of the departments and Victoria Police for the creation of an IMGC or similar under the *IM-STD-03 Information Management Governance Standard* are easily confused with the recommendation for an IMGC model made to all departments and agencies under the *DataVic Access Policy* guidelines.

In addition to recently releasing an updated *Information Management Framework* and *Information Management Policy*, the Department of Premier and Cabinet's Enterprise Solutions branch has also issued four information management standard documents⁴⁹⁷ and six information management guidance documents.⁴⁹⁸ This is in addition to the *DataVic Access Policy* guidelines that have been in place since 2012 and the departments' and agencies' existing obligations under other public information legislation and guidelines concerning FOI and public recordkeeping.

⁴⁹⁶ Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 9 November 2017, p.104

⁴⁹⁷ These are the *IM-STD-03 Information Management Governance*, the *IM-STD-04 Address Data Standard*, the *IM-STD-05 Enterprise Data Management Plan* and the *IM-STD-06 Cabinet in Confidence and Caretaker Period Digital Information Management*.

⁴⁹⁸ These are the *IM-GUIDE-03 Information Management Glossary*, the *IM-GUIDE-04 Office 365 and Records Management*, the *IM-GUIDE-05 Checklist for systems procurement and implementation*, the *IM-GUIDE-06 Information Management Governance*, the *IM-GUIDE-07 Address Data Guidelines* and the *IM-GUIDE-08 Enterprise Data Management Plan*.

The Department of Premier and Cabinet has also informed the Committee that the newly formed VCDI 'is also in the process of developing a Data Reform Strategy for the VPS, which is anticipated to include actions associated with the open data agenda'.⁴⁹⁹

While the Government is currently moving towards greater centralisation for Victoria's public sector information management systems with supporting legislation and oversight, the Committee notes this does not necessarily also mean information management systems and processes for departments and agencies will become simplified and streamlined.

The Committee believes it is important that the newly-formed VCDI and the Victorian Chief Data Officer actively manage relationships with departments and agencies in terms of guiding their information management processes and procedures, beyond imposing guidance and standard documents, to ensure these are relevant and appropriate to organisations.

FINDING 92: Guidance and standards documentation relating to information management policies and processes that departments and agencies are required to adhere to is increasing.

RECOMMENDATION 43: The Department of Premier and Cabinet, as the central agency, ensure that information management guidance and standards supplied to departments and agencies are clear, relevant, do not duplicate existing documentation and kept to a minimum.

This report was adopted by the Public Accounts and Estimates Committee at its meeting on 16 April 2018.

⁴⁹⁹ Department of Premier and Cabinet, *Response to the Committee's 2016-17 Financial and Performance Outcomes General Questionnaire*, received 2 November 2017, p.23

Appendix 1

Public access to Government data: key reviews

A1.1 **Parliamentary *Inquiry into Improving Access to Victorian Public Sector Information and Data* (2009)**

The origin of Victoria's public access data policy can be traced to the 2009 Economic Development and Infrastructure Committee's *Inquiry into Improving Access to Victorian Public Sector Information and Data*. The Inquiry examined the potential benefits and costs of maximising public access to Government (or public sector information), the use of open source and open content models and the impact of these on existing cost recovery arrangements.⁵⁰⁰

The Committee's final report noted:

Evidence the Committee received during the course of this Inquiry has led it to believe that Victoria stands to gain a great deal from making its PSI available for use and re-use by the public. Making PSI more freely available may lead to increased commercial activity, provide valuable primary data to researchers in a wide range of disciplines, and increase the public transparency of government in Victoria.⁵⁰¹

The Committee's major recommendation was that the Victorian Government develop a whole-of-government information management framework (IMF) with the following key features:

- that the object of the IMF is to promote and facilitate increased access to and re-use of Victorian public sector information (PSI) by government, citizens, and businesses;
- that the default position of the IMF be that all PSI is made available;
- that the IMF define and describe criteria under which access to PSI may be restricted, or released under licence;
- that PSI made available under the IMF be priced at no cost or marginal cost; and
- that the IMF establish a systematic and consistent whole-of-government methodology for categorisation, storage and management of PSI.⁵⁰²

⁵⁰⁰ Economic Development and Infrastructure Committee, *Inquiry into Improving Access to Victorian Public Sector Information and Data - Final Report* (2009), p.1

⁵⁰¹ *ibid.*, p.2

⁵⁰² Economic Development and Infrastructure Committee, *Inquiry into Improving Access to Victorian Public Sector Information and Data - Final Report* (2009), Recommendation 2, p.20

Other recommendations made by the Committee included the IMF be rolled out in a staged approach, starting with Government departments, followed by other agencies including public hospitals and local councils and that the Government employ a systematic approach to identify materials for release and publish these on department websites.⁵⁰³

In terms of governance the Committee recommended the IMF was to be implemented and overseen by a public sector information steering committee established by the Victorian Government and that the steering committee be comprised of senior departmental staff who would regularly report to the Minister responsible for the Information Management Framework.⁵⁰⁴

The Committee recommended the development of a whole-of-government public sector information (PSI) directory, and that metadata for all new PSI created within the Victorian Government be prospectively added to the directory, as well as existing historical documents and data.⁵⁰⁵

The Committee made further recommendations regarding copyright licensing systems that aimed to maximise public access and distribution of PSI, and develop guidelines for pricing that emphasised the provision of PSI at no cost or marginal cost, together with minimising the (then not uncommon) practise of Departments charging other departments for data.⁵⁰⁶ The Committee also made recommendations regarding open standard formats for PSI.⁵⁰⁷

All of the Committee recommendations were supported or supported-in-principle by the then Government.⁵⁰⁸ The Government response tabled to the Committee's report tabled in early 2010 indicates there was particular support for the information management framework and a Public Sector Information Inter-departmental Committee was assigned to oversee the development of this.⁵⁰⁹

A1.2 The Victorian Auditor General's Office *Access to Public Sector Information* report (2015)

In 2015 the Victorian Auditor-General released the *Access to Public Sector Information* report into the implementation of the Information Management Framework (IMF), the key recommendation of the 2009 EDIC parliamentary inquiry.

503 *ibid.*, Recommendations 4 and 6, pp.30, 35

504 *ibid.*, Recommendations 37 and 38, p.142

505 *ibid.*, Recommendation 35, p.137

506 *ibid.*, Recommendations 11, 12, 13, 15, 16, 17, 18 and 19, pp.64, 66, 81-82, 94, 99, 101-102

507 *ibid.*, Recommendation 21, p.118

508 Victorian Government, *Whole of Victorian Government Response to the Final Report of the Economic Development and Infrastructure Committee's Inquiry into Improving Access to Victorian Public Sector Information and Data*, tabled 2 February 2010, p.8

509 *ibid.*, pp.8-9

The Auditor-General found the full implementation of the inquiry's key recommendations, particularly the development of a whole-of-government IMF, had been curtailed due to a number of factors, including:

- The alteration of the Public Sector Information Release Framework (PSIRF). This was originally established by the Government's project sponsors board to implement the PSI inquiry's recommendations. This change saw the Department of Treasury and Finance take carriage of the project and its implementation, switching focus to developing the *DataVic Access Policy*, instead of the wider ranging PSIRF.⁵¹⁰
- The impact of policy and machinery-of-government (MOG) changes over recent years, including the *Sustainable Government Initiative* (2012) and the large scale machinery-of-government changes announced in December 2014. This equated to a loss of staff and restructuring that meant the implementation of adequate departmental information management frameworks were delayed and subsequently underdeveloped.⁵¹¹

The Auditor-General found that the centralised DataVic portal was 'at a low level of maturity'⁵¹² and that the *DataVic Access Policy* was 'falling well short of its potential'.⁵¹³ The report noted the previous (pre-2015) emphasis on quotas placed on departments in terms of uploading datasets had 'weaknesses' and resulted in 'limited functionality in the way these data are presented to the public'⁵¹⁴ as:

Setting dataset release quotas has made the portal more difficult to navigate and, in some cases, made it more complicated to collate and analyse data.⁵¹⁵

The other major finding of the report was that:

There is no framework in place to measure the achievement of the DataVic access policy's intended outcomes and agencies have no clear idea about the extent to which the policy has been a success. Performance reporting to government is confined to the number of datasets being released. We found no assessment of their contribution to the government's intended outcomes of:

- economic stimulation
- improved productivity
- better access for researchers to critical and useful data
- improvements to the efficiency and effectiveness of government through improved management practices and the better use of data.⁵¹⁶

510 Victorian Auditor-General's Office, *Access to Public Sector Information* (2015), p.5

511 *ibid.*, p.25

512 *ibid.*, p.xi

513 *ibid.*, p.10

514 *ibid.*, p.15

515 *ibid.*, p.16

516 *ibid.*, p.17

As a result, the Auditor-General advised the Department of Treasury and Finance, as the department that then had responsibility for the *DataVic Access Policy* and portal in 2015, to assist agencies in moving from the quota approach to giving high-value publications greater priority, develop and apply an evaluation framework to better understand the potential and realised benefits and integrate the policy into a more comprehensive whole-of-government IM framework.⁵¹⁷

A1.3 Productivity Commission's *Data Availability and Use* report (2017)

Public sector data availability and use was the subject of the Productivity Commission *Data Availability and Use* report, which examined the impact of the recent substantial increases in data generation and usability across the world, seeing productivity gains across a range of public and private sector industries, new product development and business improvements. The report cautioned that Australia is not fully participating in the benefits of new data-driven markets.⁵¹⁸

The Productivity Commission has recommended a series of national-level reforms to improve the public awareness of data and to create greater levels of data-sharing and release. These include:

- a *Data Sharing and Release Act*, and the establishment of National Data Custodian to oversee new access and data use arrangements⁵¹⁹
- Accredited Release Authorities (ARAs) established across all Australian jurisdictions that would act as hubs of expertise and advice on appropriate datasets of release⁵²⁰
- a set of National Interest Datasets (NIDs) that would be put forward by the ARAs covering public policy areas such as health, environment and infrastructure that would be required to be regularly updated and publicly accessible.⁵²¹

517 *ibid.*

518 Productivity Commission, *Overview and Recommendations - Data Availability and Use* (2017), p.2

519 Productivity Commission, *Data Availability and Use - Final Report* (2017), pp.250-64

520 *ibid.*, pp.247-49

521 *ibid.*, pp.282-306

Appendix 2

Correction — PAEC Report on the 2015-16 Financial and Performance Outcomes

The *Report on the 2015-16 Financial and Performance Outcomes* was tabled on 24 May 2017.

A2.1 Chapter 8 — Review of 2015-16 annual reports

8.2.2 Non-departmental reporting of budget portfolio outcomes

The report contains an error that the Committee wishes to correct. The report states that:

... the Committee found that the Department of Parliamentary Services and Court Services Victoria do not include budget portfolio outcomes sections in their annual reports, despite having targets set out in the budget papers.

Inclusion of this information would allow readers to compare the budget and actual results for these entities, and to be informed why any variation occurred. This would be an improvement in accountability for the Department of Parliamentary Services and Court Services Victoria.

The Committee appreciates that the Parliament is independent of the Government, and that Courts are independent from both the Parliament and the Government. However, the Committee does not consider that identifying variances between budget and actual figures and explanation for those variances compromises this independence.⁵²²

Finding 90 states that:

The Department of Parliamentary Services and Court Services Victoria do not publish the budget portfolio outcomes in their annual reports. This is despite having budgets for line items set in the budget papers.⁵²³

The Committee recommended that:

The Department of Parliamentary Services and Court Services Victoria improve accountability by including budget portfolio outcomes sections in future annual reports. This would highlight budget and actual results as well as provide explanations for significant or material variances.⁵²⁴

⁵²² Public Accounts and Estimates Committee, *Report on the 2015-16 Financial and Performance Outcomes* (2017), p.160

⁵²³ *ibid.*

⁵²⁴ *ibid.*

The Committee acknowledges that the finding and recommendation are incorrect as Court Services Victoria published the budget portfolio outcomes in Appendix 1 of its *Annual Report 2015-16*.⁵²⁵

The Committee apologises for this error.

A2

525 Court Services Victoria, *Annual Report 2015-16* (2016), pp.138-39