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First Report

of the

AUDITOR-GENERAL

for the year ended 30 June 1986

MELBOURNE
F D ATKINSON GOVERNMENT PRINTER
1986

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PART 1

BACKGROUND INFORMATION

1.1 FORMAT OF REPORTS TO PARLIAMENT

- 1.1.1 I intend to present to Parliament reports in respect of 1985-86 as indicated below. I may also present special reports on other matters as the occasion demands.
- 1.1.2 This First Report, accompanying the Treasurer's Statement for the year ended 30 June 1986, contains my report on that Statement as required by Section 47 of the Audit Act 1958. It also contains comments on certain matters of special interest concerning the financial operations of State government organisations.
- 1.1.3 A Second Report will be presented to Parliament early in 1987. It will contain audit observations and recommendations arising out of the audit of departments (administrative units) and public bodies.
- 1.1.4 A separate report on the operations of the Office of the Auditor-General including audited financial statements will be transmitted to the Premier for presentation to Parliament in accordance with the Annual Reporting Act 1983.

PART 2

MATTERS OF SPECIAL INTEREST

2.1 ACCOUNTABILITY TO PARLIAMENT

Reporting to Parliament

- 2.1.1 In the First Report of the Auditor-General to Parliament for the year ended 30 June 1985, my predecessor reiterated concerns expressed in previous Reports on the accountability process to Parliament. A major concern arose from the establishment by departments and public bodies of subsidiary companies, the significant level of public funds that may be involved in such companies and the deficiency in reporting to Parliament on the use of such funds.
- 2.1.2 Just prior to the close of the 1985-86 financial year, the Government took up equity in 3 companies established to assist the Government's program, as announced in its recent publication titled Victorian Technology Statement, to build increased commercial development on Victoria's research base and to accelerate the incorporation of new technology in Victorian industry.
- 2.1.3 The companies in question were Bioplantech Ltd., Daratech Pty. Ltd. and the Victorian Investment Corporation Ltd. Further comment on these companies is contained in paragraph 3.1.32 of this Report.
- 2.1.4 The companies were incorporated under the provisions of the Companies (Victoria) Code and, therefore, there is no legislative requirement for their financial operations to be reported to Parliament. However, the Treasurer sought legal advice whether both Bioplantech Ltd. and Daratech Pty. Ltd. could be regarded as having been established in the public interest and as a result could be defined as being public authorities in terms of the Audit Act 1958.
- 2.1.5 Following receipt of this advice, the Treasurer requested that the Auditor-General undertake the audit of Bioplantech Ltd. and Daratech Pty. Ltd. I was pleased to accept these appointments as this arrangement enables me to discharge my statutory responsibility under the Audit Act 1958 to inform Parliament of any significant matters arising from the operations of these companies. In my opinion, accountability would be further enhanced if the companies' reports were also tabled in the Parliament. At the date of preparation of this Report no appointment had been made for the audit of the Victorian Investment Corporation Ltd. under the authority of the Audit Act 1958.
- 2.1.6 The First Report for 1984-85 also included comment that the operations of the Capital Works Authority and the financial involvement of and participation by the State in the Portland Aluminium Smelter joint venture were not subject to the scrutiny of Parliament.
- 2.1.7 Soon after the tabling of that Report, the Treasurer tabled in Parliament a copy of the annual report of the Portland Smelter Unit Trust including the audited financial statements, such audit being undertaken by a firm of private practitioners, for the year ended 30 June 1985. I commend the action taken by the Treasurer, and to ensure that financial information will be provided to Parliament over the course of the project, I recommend that appropriate legislative provision be made.

2.1.8 It is also pleasing to note that the Government recently declared the Capital Works Authority as a public body under the provisions of the Annual Reporting Act 1983 which requires that the Authority's financial statements, audited by the Auditor-General, be tabled in Parliament.

Resource Management and Accountability Legislation

2.1.9 In April 1983, the Economic and Budget Review Committee tabled in Parliament a report on the review of the Audit Act 1958 which recommended significant changes to improve the management and accountability of government agencies. The Committee had observed that the responsibilities of government managers were inadequately defined, that provisions for reporting to Parliament were not adequate or timely, and that there was a need for a new efficiency and effectiveness audit function in the Victorian public sector.

2.1.10 The Committee was of the view that implementation of its recommendations would place Victoria ahead of any other government in Australia in providing accountability by government organisations to Parliament.

2.1.11 In response to the report the Treasurer informed Parliament that the Government welcomed the report as an important document aimed at reforming financial management and accountability.

2.1.12 An important initiative taken by the Government as a result of the report was the promulgation of the annual reporting legislation in September 1983 which required all departments and 7 major trading authorities to prepare and table annual reports in Parliament.

2.1.13 In his 1985-86 Budget Speech the Treasurer announced that a review of the State's financial legislation had commenced under the direction of the Comptroller-General and that the new legislative framework would be introduced to Parliament in 1986 to provide a positive stimulus to management initiative and accountability.

2.1.14 The new legislation, provisionally titled the Resource Management and Accountability Act, would replace the Public Account Act 1958, the Audit Act 1958 and the Annual Reporting Act 1983, as well as amending relevant sections of the Constitution Act 1958. A number of committees and working parties were established to assist the Comptroller-General in drafting the new legislation. This Office has been represented on the Consultative Committee by the Auditor-General, on the Steering Committee by the Assistant Auditor-General and by a number of senior members of staff on 4 working parties.

2.1.15 Many financial management issues have been addressed and a series of position papers developed by the working parties, but it is fair to say that progress on the project to date has been slow and it is unlikely that draft legislation will be ready for tabling in Parliament this year.

2.1.16 I support the Treasurer's initiative toward the development of Resource Management and Accountability legislation and suggest a higher priority be given to completing this project. In the meantime, one important financial management issue that could be addressed without legislative change is the presentation of the Treasurer's Statement as discussed in the following Section.

Suggested Improvements to Treasurer's Statement

- 2.1.17 The Treasurer's Statement has, to date, been prepared to reflect the collection of government revenue and the application of parliamentary appropriations on a cashflow accounting basis. There are no legal limitations or restrictions on making this statement simpler and more meaningful.
- 2.1.18 In line with the thrust of the Treasurer's initiative, improvement in the presentation of the Treasurer's Statement could be achieved by progressive adoption of reporting based on accrual accounting principles designed to reflect the full cost of government services, preferably in a functional or program form.
- 2.1.19 It is recognised that such development will need to be carefully planned and implemented to ensure smooth transition to production of relevant and useful information for decision making and management purposes as well as discharging public accountability. This would place considerable demand on the Department of Management and Budget in the first instance and on departments as implementation progresses.
- 2.1.20 The first step has already been taken with the introduction of the Annual Reporting Act 1983 which provided for the reporting of accrual based information by departments. The regulations promulgated under the Act required that, in addition to reporting in the financial statements the transactions of the Consolidated Fund and the Trust Fund which related to the department, details of debtors, creditors, stores on hand, capital commitments etc were also to be reported by way of supplementary financial information.
- 2.1.21 In my opinion, the Treasurer's Statement does not need to give explicit details of the Consolidated Fund transactions if this information is also provided to Parliament in the annual reports of departments. The Treasurer's Statement could take the form of a consolidated summary statement complementing the information contained in departmental financial statements.
- 2.1.22 It is accepted that the Public Account Act 1958 requires the Consolidated Fund to be balanced to ensure that a deficit does not arise, i.e. that cash outflows from the Consolidated Fund do not exceed cash inflows. Therefore, the Treasurer's Statement will still need to contain a statement of cash receipts and payments of the Consolidated Fund.
- 2.1.23 However, decision making, financial accountability, reporting and resource management would be enhanced if obligations were recognised when they were incurred rather than only at the time of payment, and if proper recognition were given to assets.
- 2.1.24 Many assets and obligations are not currently taken into account in reporting the financial transactions of the State, for example:
- * land and buildings
 - * capital works
 - * debtors
 - * unfunded liabilities for government superannuation funds
 - * accrued cost of servicing borrowings
 - * accrued employees' benefits such as long service leave and annual leave.
- 2.1.25 In addition to the above, other immediate improvements which I consider would make the Treasurer's Statement more meaningful, are:

- * *Reporting all expenditure by Program.* At present the total cost of a Program is not easily discernible. For example, the salary costs of Judges and Stipendiary Magistrates are shown under Special Appropriations and not as a part of the costs of the Attorney-General's Program 168 - Administration of Justice.
- * *Allocation of expenditure to the most relevant Program.* For example, the cost of the Melbourne Remand Centre is charged to Treasurer's Program 726 - Transfer and Other Payments. As it is a declared State Development Project the costs are financed by loans from the State Development Account. There is no information within the Treasurer's Statement to inform a reader that the Attorney-General's Program 178 - Custodial Services does not contain the cost of the Melbourne Remand Centre.
- * *Amending the descriptions given to certain receipts items to make them more meaningful.* For example, Motor Vehicle Registration Fees are not shown in one total but are apportioned to the items "Motor Car Act - Section 7A" and "Revenue previously paid to Trust Fund". These titles are meaningless to any reader not conversant with the Treasurer's accounting system.
- * *A more consistent classification of expenditure into recurrent and capital.* Further comment on current inconsistencies is contained in Section 3.12 of this Report.
- * *The grouping of like receipts under one heading.* For example, some receipts from the sale of property are classified under the heading "Loan Raisings, Works Grant etc", while others are classified under the headings "Miscellaneous Receipts" or "Fees and Charges for Departmental Services".
- * *Aggregation of immaterial items and disaggregation of material items.* For example, the grants and subsidies review (paragraph 3.9.11) identified grants totalling \$648.2 million paid to universities and colleges of advanced education which were disclosed as 2 single items in the Trust Fund of the Treasurer's Statement. On the other hand, there was separate disclosure of far less significant payments such as the \$1 000 grant to the Productivity Promotion Council of Australia and the \$300 grant to the Australian Legion of Ex-Servicemen and Women (Preston sub-branch).
- * *Consolidation of program receipts and payments with Trust Fund receipts and payments.* At present a number of receipts and payments amounts are recorded in trust accounts maintained outside the Consolidated Fund. These are not subject to parliamentary appropriation and are therefore excluded from program receipts and payments in the Treasurer's Statement. Amounts involved are significant. For example, payments from the Hospitals and Charities Fund totalled \$1 339 million in 1985-86 and are recorded as one item in the Treasurer's Statement. This one line disclosure can be compared to the more detailed disclosure provided in respect of \$1 612 million (including \$1 083 million transferred to the Hospitals and Charities Fund) for the Health Department's 1985-86 expenditure paid from the Consolidated Fund.

- * *Identification of all payments received from Commonwealth sources.* At present it is cumbersome to trace payments in the Treasurer's Statement that are funded by the Commonwealth because of the diversity of the terms and conditions applicable to the various grants and subsidies. Because of differing requirements, some Commonwealth moneys are paid into the Consolidated Fund and others are credited to the Trust Fund for passing to public bodies operating outside the Public Account. It is recommended that a summary report be included in the Treasurer's Statement reconciling all moneys received by the State from Commonwealth sources.

2.1.26 I look forward to positive steps being taken in 1986-87 to improve the presentation contained within the Treasurer's Statement to make it more informative and meaningful.

Form of Auditor-General's Report on the Treasurer's Statement

2.1.27 The Audit Act 1958 requires that I make and sign a report explaining the Treasurer's Statement in full.

2.1.28 Recent developments in annual reporting legislation require departments to prepare annual reports for tabling in Parliament. Annual reports contain detailed financial statements of receipts and payments from all sources including the Consolidated Fund and the Trust Fund. Regulations enacted under the annual reporting legislation also require departments to provide explanatory statements of significant variations in the items included in the financial statements.

2.1.29 I also acknowledge the progressive upgrading by the Department of Management and Budget of the material provided in the nature of explanatory notes to the Treasurer's Statement. The foreword to the Statement now provides, amongst other things, general comments on legislation relating to the finances of the State, a comparison of receipts and payments with Budget estimates and a description of the accounting policies and practices.

2.1.30 Consistent with the thrust of these recent initiatives I have reviewed the form and content of my First Report to Parliament paying particular attention to the manner in which I am explaining the Treasurer's Statement.

2.1.31 I have formed the view that much of the detail relating to the movement of items of receipts and payments which traditionally has always been included in the Auditor-General's First Report is no longer necessary. In fact I have observed that most of this detail is now available to Parliament through the annual departmental reports.

2.1.32 I believe that the quality and effectiveness of my First Report will be enhanced by expanding overall audit comment on the State's financial operations for the year and by providing summary information highlighting matters of significance.

2.1.33 Of course I will continue to include matters of special interest concerning the financial operations of the State's accounts and provide the relevant statutory information prescribed by the Audit Act 1958.

2.2 OTHER MATTERS OF SPECIAL INTEREST

2.2.1 Matters of special interest detailed in Part 3 of this report are identified below:

<u>Subject</u>	<u>Reference</u>
Increased participation of the State in equity based joint ventures	3.1.32
Long term liabilities of the State	3.4
Financial management of grants and subsidies funding in excess of \$2 000 million and not subject to Parliamentary scrutiny	3.9
Compliance with Effectiveness Review Committee guidelines on consultancy engagements	3.10
Need to enhance proper asset management procedures	3.11
Improvement by departments in payment of accounts	3.13.6- 3.13.8
Unauthorised carryover of 1985-86 Annual Appropriations funding of \$2.4 million to 1986-87	3.14.14- 3.14.17
Circumvention of the Administrative Arrangements Act 1983	3.14.18- 3.14.20
Financial assistance of \$5.1 million to a company building the Melbourne Remand Centre.	3.15

2.3 STATUS REPORT

2.3.1 The following information relates to the status of observations and the recommendations contained in my predecessor's previous Reports on the Treasurer's Statement.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
1978-79	7	Balance of Consolidated Revenue	Position unchanged.
1979-80	9	deficits at 30 June 1970 still unfunded and temporarily financed from Public Account.	
1982-83	37	Action should be taken to include in the Treasurer's Statement information showing the total public debt of the State.	Position unchanged. However, Part 3.4 of this Report expands on the issue.
1983-84	44		
1984-85	57		
1982-83	49	Need for disclosure in the Treasurer's Statement of unspent Commonwealth moneys previously held in trust accounts.	Position unchanged.
1984-85	5	Legislative action required to enable Parliament to be provided with regular financial information on the State's participation in the joint venture for the development of the Portland Aluminium Smelter and such information to be subject to the audit of the Auditor-General.	Position unchanged.
	9	In relation to the creation of the Capital Works Authority, there was a need for provision to be made for the proper recording, financial reporting and auditing of the Authority's affairs.	Authority brought under the provisions of the Annual Reporting Act 1983.
	79-80	State Management Accounting and Financial Information System (SMAFIS): A need to address auditability issues, greater user involvement, availability of an automatic interface of data between departments and central agencies and a proper training program.	Position substantially unchanged.

PART 3

REVIEW OF THE TREASURER'S STATEMENT

3.1 INTRODUCTION

Structure of State's Accounts

- 3.1.1 The Public Account Act 1958 sets out the structure of the State's Accounts, which comprise the Consolidated Fund and the Trust Fund.
- 3.1.2 To assist the reader in obtaining a general understanding of the operations of the Funds, I have set out below a description of the transactions that occur within each Fund. Such description is broadly based and does not purport to be a definitive statement of all transactions that may occur. Further details on the Consolidated Fund receipts and payments and the operations of the Trust Fund are contained in Sections 3.2, 3.3 and 3.5 of this report.
- 3.1.3 The operations of both the Consolidated Fund and Trust Fund are transacted through the various bank accounts of the State. Collectively, such bank accounts are referred to as the Public Account. Separate bank accounts are not held for each fund and, therefore, transactions between the Consolidated Fund and the Trust Fund do not result in an outflow of cash from the Public Account.
- 3.1.4 Bank accounts in the names of departments which are used to hold revenue collections pending transmission to the Consolidated Fund or to hold advances from the Public Account to enable urgent payments to be made are not deemed to be part of the Public Account.
- 3.1.5 Revenue collected by the State under its various statutes and moneys paid to the State by the Commonwealth are credited to the Consolidated Fund.
- 3.1.6 Borrowings are generally credited direct to the Consolidated Fund but in the case of certain borrowings the Treasurer may determine that all or part thereof may be credited to the Works and Services Account within the Trust Fund prior to transfer to the Consolidated Fund. Such transfer may be made in the year the borrowing is received or in subsequent years.
- 3.1.7 The general costs of operating the State's programs, such as salaries and general operating expenses, the cost of servicing the State's debt, the payment of grants and subsidies to public authorities and non-government organisations, the transfer of certain revenue collections to the Trust Fund as required by statute and expenditure on capital works are met from the Consolidated Fund.
- 3.1.8 The Trust Fund comprises those accounts which have been established to record moneys received and expended for specific purposes. It also includes certain accounts created to facilitate accounting procedures.
- 3.1.9 The principal categories of accounts established within the Trust Fund are:

State Government Funds

Joint Commonwealth and State Funds

Commonwealth Government Funds

Prizes, Scholarships, Research and Private Donations

Content of Treasurer's Statement

- 3.1.10 The Treasurer's Statement covers the financial operations of the inner budget sector which broadly includes all government departments. The Statement details:
- (1) revenue collected and credited to the Consolidated Fund;
 - (2) payments from the Consolidated Fund authorised by legislation;
 - (3) details of accounts included in the Trust Fund; and
 - (4) details of the cash and investment balances of the State.
- 3.1.11 Appendices to the Treasurer's Statement provide details at 30 June of the public debt of the State, advances to departments from the Public Account, equity capital held by the State, the contingent liability of the State in respect of guarantees issued by the Treasurer, and government guarantees in respect of borrowings by State instrumentalities and other bodies.

Statutory Reporting Requirements

- 3.1.12 Section 47 of the Audit Act 1958 requires that I make and sign a report explaining the Treasurer's Statement in full.
- 3.1.13 In practice, this requirement is met by presentation of a general review of the main features of the State finances including the receipts and payments of the Consolidated Fund and the Trust Fund, details of the Balances of the State, the Public Debt of the State and other relevant financial issues which in my opinion warrant inclusion.
- 3.1.14 My report also contains information on general matters which are required to be reported to Parliament under specific provisions of the Audit Act 1958.
- 3.1.15 The Treasurer's Statement for the financial year 1985-86 has been examined and is in agreement with the accounts of the Treasurer.
- 3.1.16 Rounding of figures within my report may, in some instances, result in minor differences when those figures are compared with those shown in the Treasurer's Statement.
- 3.1.17 The actual 1984-85 expenditure figures shown in this report may vary from those shown in the previous report. The differences arise from alterations made to Programs between the 1984-85 and 1985-86 years and the subsequent restating of the previous year's figures to make them comparative with the current Program. The restated figures used are those shown in the Appropriation (1985-86 No. 1) Act 1985.

TABLE 3.1A

Consolidated Fund
Transactions 1985-86

	<u>1984-85</u>	<u>1985-86</u>		<u>1984-85</u>	<u>1985-86</u>
	<u>\$ 000</u>	<u>\$ 000</u>		<u>\$ 000</u>	<u>\$ 000</u>
<u>Receipts</u>					
Balance Brought Forward	28 126	27 655	<u>Payments</u>		
			<u>Recurrent Account Sector</u>		
State Sources	4 380 623	4 796 506	Special Appropriations	1 334 719	1 335 864
Commonwealth	<u>2 821 300</u>	<u>3 068 930</u>	Departmental Programs - Appropriations	<u>5 867 675</u>	<u>6 558 827</u>
	<u>7 201 923</u>	<u>7 865 436</u>		<u>7 202 394</u>	<u>7 894 691</u>
			<u>Works and Services Sector</u>		
State Sources - Loan Raisings	217 701	360 897	Special Appropriations	..	2 784
- Other	503 083	531 866	Departmental Programs - Appropriations	<u>1 625 334</u>	<u>1 788 846</u>
Commonwealth	<u>904 550</u>	<u>900 467</u>		<u>1 625 334</u>	<u>1 791 630</u>
	<u>1 625 334</u>	<u>1 793 230</u>	Balance Carried Forward	27 655	..
	<u>8 855 383</u>	<u>9 686 321</u>		<u>8 855 383</u>	<u>9 686 321</u>
			<u>Overall Result</u>		
			Recurrent Sector	Deficit	(29 255)
			Works and Services Sector	Surplus	<u>1 600</u>
			Overall Result for Year	Deficit	<u>(27 655)</u>

Summary of 1985-86 Financial Transactions

- 3.1.18 In the Budget for 1985-86, the Treasurer estimated that the total receipts of the Consolidated Fund would be \$9 685.9 million and that this amount would be fully expended.
- 3.1.19 The actual receipts of the Consolidated Fund in 1985-86 totalled \$9 658.6 million, i.e. \$27.3 million less than estimated, while payments from the Consolidated Fund totalled \$9 686.3 million for the year, \$27.7 million less than estimated. The net result was that there was a deficit of \$27.7 million for the year. This was funded from the balance brought forward in the Consolidated Fund from 1984-85. This meant that the overall transactions within the Consolidated Fund for 1985-86 were in accordance with the legislation which provides that the total of the sums issued out of the Consolidated Fund in a financial year shall not exceed the amounts to the credit of the Fund. In this sense, a cash deficit cannot arise.
- 3.1.20 The deficit was arrived at after bringing to account loan raisings of \$599 million and an amount of \$15 million, being the net redemption of deposits with the Victorian Development Fund. During 1985-86 a deposit made in June 1985 of \$45 million was redeemed and an amount of \$30 million was deposited.
- 3.1.21 If the deposit of \$30 million had not been made the result for the year would have been a surplus of \$2.3 million instead of the deficit of \$27.6 million.
- 3.1.22 Although, in effect, there is no balance to carry forward in the Consolidated Fund to 1986-87 there was, in addition to the investment of \$30 million, a balance of \$51.2 million to the credit of the Works and Services Account in the Trust Fund at 30 June 1986. The Works and Services Account does not form part of the Consolidated Fund. However, as there is now a single Appropriation Act which incorporates both recurrent and works and services expenditure, it will be necessary for the amount of \$51.2 million to be transferred to the Consolidated Fund before it can be expended.
- 3.1.23 Table 3.1A gives details of the overall operations of the Consolidated Fund for the 1985-86 year.
- 3.1.24 In addition to the receipts required to be credited to the Consolidated Fund, receipts totalling \$35 869 million (1984-85, \$34 400 million) were credited to accounts within the Trust Fund. Payments from the Fund during the year totalled \$35 870 million (1984-85, \$34 401 million). The balance of the Fund at 30 June 1986 totalled \$330 million (30 June 1985, \$332 million). Details of the operations of the Trust Fund are disclosed in Section 3.5 of this Report.

Balances of the State of Victoria

- 3.1.25 The transactions of the State of Victoria for the past 2 years are shown in Table 3.1B.
- 3.1.26 It is important to emphasise that these balances cover only the inner budget sector and do not include any balances held by public bodies. In addition, the receipts of both the Consolidated Fund and the Trust Fund include various borrowings and the balances are therefore arrived at after such borrowings. Further, part of the balances are not available for general government purposes, e.g. payroll deductions awaiting remittance to the Australian Taxation Office, unspent Commonwealth specific purpose grants and moneys held in trust for specific purposes.

TABLE 3.1B

	<u>1984-85</u>	<u>1985-86</u>
	<u>\$000</u>	<u>\$000</u>
Balances 1 July	332 033	325 998
Receipts		
Consolidated Fund	8 827 256	9 658 666
Trust Fund	<u>34 399 878</u>	<u>35 868 569</u>
	<u>43 559 167</u>	<u>45 853 233</u>
Payments		
Consolidated Fund	8 827 728	9 686 321
Trust Fund	34 401 155	35 870 466
Increase in advances	<u>4 286</u>	<u>12 364</u>
	<u>43 233 169</u>	<u>45 569 151</u>
 Balances 30 June	 <u>325 998</u>	 <u>284 082</u>

3.1.27 The net effect of the year's transactions was a decrease in the total balances of the State of \$41.9 million, brought about by a decrease in the credit balance of the Trust Fund of \$1.8 million, an increase in advances from the Public Account of \$12.3 million, together with a decrease of \$27.7 million in the amount retained in the Public Account.

3.1.28 State balances as at 30 June 1985 and 1986 are set out in Table 3.1C.

TABLE 3.1C

	<u>30.6.85</u>	<u>30.6.86</u>
	<u>\$000</u>	<u>\$000</u>
Trust Fund balance	331 670	329 773
Balance retained in the Consolidated Fund	<u>27 655</u>	<u>..</u>
	<u>359 325</u>	<u>329 773</u>
Less Advances from Public Account		
For Consolidated Revenue deficits (prior to 1970)	21 782	21 782
For departments and other purposes	<u>11 545</u>	<u>23 909</u>
	<u>33 327</u>	<u>45 691</u>
	<u>325 998</u>	<u>284 082</u>
 Represented by:		
Cash at bank	(14 363)	12 607
Fixed deposit accounts	12 110	10 496
Short term deposits	88 500	40 100
State Bank equity contribution*	<u>45 000</u>	<u>45 000</u>
	131 247	108 203
 Investments - Trust Fund	 <u>194 751</u>	 <u>175 879</u>
	<u>325 998</u>	<u>284 082</u>

* Refer paragraph 3.1.32

- 3.1.29 Included in the amount of \$23.9 million, advances from Public Account for departments and other purposes, is an advance of \$10.6 million made to the Department of Management and Budget to enable temporary financial assistance to be made to St. Andrews Hospital, which is in receivership. The amount of \$10.6 million is repayable to the Public Account with interest.
- 3.1.30 By providing such financial assistance from an advance from the Public Account, the payment is not treated as expenditure from the Consolidated Fund and, therefore, does not appear within the Treasurer's Statement.
- 3.1.31 In my opinion, such financial assistance, even though of a temporary nature, could be provided from funds appropriated to Program 729 - Advance to Treasurer, thus ensuring that the transaction would be reported in the Treasurer's Statement.

Equity

- 3.1.32 In addition to the equity in the State Bank referred to above, the State also holds equity in a number of companies and public bodies. The value of such equity is not included in the State balances as the amounts in question were deemed to have been expended from the Consolidated Fund. Details of these holdings as at 30 June 1986 are:

Companies

(1) Technology Based Companies

(i) Bioplantech Ltd

Bioplantech Ltd. was incorporated as a public company in October 1985 with a share capital of \$5.

The objective of the company is broadly to conduct feasibility studies into plant biotechnology and to develop and market products identified by such feasibility studies.

In April 1986 the effective ownership of the company was transferred to the State. The shares in the company were inscribed in the name of senior officers of the Department of Management and Budget and the Treasurer. The shares are held in trust for the State of Victoria.

(ii) Daratech Pty Ltd

Daratech Pty. Ltd. was incorporated on 25 June 1986. In broad terms the objective of the company is to provide leadership and direction to the commercialisation of research undertaken by the Department of Agriculture and Rural Affairs.

The shareholders of the company are the Minister for Agriculture and Rural Affairs and senior officers of the Department of Agriculture and Rural Affairs who hold the shares in trust for the State of Victoria.

On 26 June 1986 the State made an equity contribution of \$3 million under the Major Initiatives Program to the company.

(2) Victorian Investment Corporation Ltd.

The Victorian Investment Corporation was incorporated on 27 June 1986 following the change of name of a company formerly known as Wydac Pty. Ltd. and its conversion to a public company. The shareholders of the company are the Treasurer and the Minister for Industry, Technology and Resources who hold the shares in trust for the State of Victoria.

The objective of the Victorian Investment Corporation is to facilitate the development of Victoria's research, scientific, technology and commercial base by investing in medium to large scale projects that involve medium to long term payout periods.

On 26 June 1986 an amount of \$27 million under the Major Initiatives Program was paid to Wydac Pty. Ltd. pending the conversion of that company to the Victorian Investment Corporation Ltd., being a \$15 million equity contribution and a loan of \$12 million.

The Victorian Economic Development Corporation also took up \$2 million equity in the company.

(3) National Mortgage Market Corporation Ltd.

The State of Victoria has an equity of \$1.3 million in the National Mortgage Market Corporation Ltd. which it took up in April 1985. This company was established by the Government of Victoria and a number of financial institutions within the private sector to facilitate the development of a secondary mortgage market.

To date the State has not received any dividends.

Public Bodies

(1) Victorian Economic Development Corporation

During 1985-86 the State converted loans previously made to the Corporation of \$12.5 million to equity contribution. Total equity contribution at 30 June 1986 was \$32.6 million.

A dividend of \$1.2 million was received during the year and credited to the Consolidated Fund.

(2) Coal Corporation of Victoria

On 30 June 1986 the State of Victoria made an equity contribution of \$5 million to the Coal Corporation of Victoria, bringing the State's contribution to \$6.8 million.

(3) State Bank

The State of Victoria made an equity contribution of an amount of \$45 million to the State Bank of Victoria in 1984-85. The contribution is repayable at such time as the Treasurer, in consultation with the Commissioner of the State Bank, determines.

During 1985-86 the State received and credited to the Consolidated Fund a dividend of \$3.6 million which represented an 8 per cent return on equity. This amount was in addition to amounts paid to the Public Account under the provisions of the State Bank Act 1958.

(4) Portland Smelter Unit Trust

The Trust was established in 1984 to provide the means for a 35 per cent equity participation by the Government in an unincorporated joint venture for the construction of an aluminium smelter at Portland. Such participation entitles the Trust to ownership of 35 per cent of the smelter and entitlement to 35 per cent of the aluminium produced by the smelter. The other participants in the joint venture and their percentage holdings, are Alcoa (45 per cent), First National Resource Trust (10 per cent) and the China International Trust and Investment Corporation (10 per cent).

The Treasurer of Victoria, on behalf of the State, purchased units in the Trust at a cost of \$20 million. The Treasurer is the sole unit holder.

The Government funded the purchase of units by way of a loan from the State Development Account. The loan, together with accrued interest, is repayable on 30 June 1995. Interest accrued on the loan at 30 June 1986 was \$3.1 million.

In addition to the funds provided by the Treasurer as the unit holder, the Trust's participation is funded by loans obtained by the trustee, Perpetual Executors Nominees Limited, from the Victorian Public Authorities Finance Agency (VicFin). Loans obtained by the trustee at 30 June 1986 amounted to \$572.8 million. The repayment of the loans to VicFin has been guaranteed by the Treasurer under the provisions of the Victorian Economic Development Corporation Act 1981.

It is understood that the Trust is also assisting Alcoa to meet the cost of its equity participation by the provision of funds by way of loan. At 30 June 1985 loans made to Alcoa amounted to \$76.5 million. At the date of preparation of this Report further details are not available.

As I am not the auditor of the Trust and do not have access to the Trust Deed, I have been unable to confirm the extent of the liability of the unitholder or the value of such holding at 30 June 1986. The value of Unitholders Funds as at 30 June 1985 was \$18 million. I would expect that the value of Unitholders Funds will further decrease until such time as the Trust commences selling its share of aluminium produced. Production is due to commence in the 1986-87 financial year.

3.2 CONSOLIDATED FUND RECEIPTS - OVERVIEW

3.2.1 In the Budget for 1985-86, the Treasurer estimated that the total receipts of the Consolidated Fund would be \$9 685.9 million. The actual receipts of the Consolidated Fund in 1985-86 totalled \$9 658.7 million, \$27.2 million (0.3 per cent) less than estimated.

3.2.2 Table 3.2A compares actual receipts for 1985-86 with those for 1984-85 and with the Budget estimates for 1985-86. Figures for actual receipts are derived from the Abstract of Receipts contained in the Treasurer's Statement after reallocation of certain aggregate figures to appropriate heads of receipts as set out in paragraph 3.2.3.

TABLE 3.2A

<u>Heads of Receipt</u>	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Variation</u>	
	<u>1984-85</u>	<u>1985-86</u>	<u>Estimate</u>	<u>from Budget</u>	<u>Estimate</u>
	<u>\$000</u>	<u>\$000</u>	<u>1985-86</u>	<u>\$000</u>	<u>%</u>
			<u>\$000</u>		
<u>State Sources</u>					
Taxation	2 826 254	3 094 795	3 025 350	69 445	2
Transport authorities					
- sale of assets	59 826	49 928	51 400	(1 472)	(3)
- other	352 100	423 102	433 100	(9 998)	(2)
Public authorities	370 675	409 859	410 900	1 041	..
Recoveries of debt charges	218 430	286 382	284 082	2 300	1
Fees and charges for departmental services	238 658	272 992	284 031	(11 039)	(4)
Loan raisings					
- Capital Works Authority	84 521	271 317	278 400	7 083	(3)
- State Development Account	133 180	88 861	74 600	14 261	19
Land revenue	217 826	228 516	251 270	(22 754)	(9)
Revenue previously paid to Trust Fund					
- recurrent	209 652	216 225	212 534	3 691	2
- capital	24 872	16 187	15 966	221	1
Miscellaneous receipts	177 766	150 741	149 800	941	..
Rural Water Commission					
- rates and charges	72 306	73 166	80 500	(7 334)	(9)
- other	..	5 801	..	5 801	..
Transfer from Works and Services Account	40 578	..	49 839	(49 839)	(100)
Loan repayments	25 708	37 568	46 095	(8 527)	(18)
Conservation, Forests and Lands					
- Forests Division	37 768	37 127	38 940	(1 813)	(5)
Cash Management Account					
- redemption of investment	..	15 000	15 000
Harbour revenue	<u>11 287</u>	<u>11 702</u>	<u>12 445</u>	<u>(743)</u>	<u>(6)</u>
Total State Sources	5 101 407	5 689 269	5 714 252	(26 448)	..
<u>Commonwealth Payments to the State</u>					
	<u>3 725 849</u>	<u>3 969 398</u>	<u>3 971 691</u>	<u>2 293</u>	..
	<u>8 827 256</u>	<u>9 658 667</u>	<u>9 685 943</u>	<u>(27 276)</u>	..

3.2.3 The reallocations referred to in paragraph 3.2.2 are detailed in Table 3.2B.

TABLE 3.2B

	<u>Actual</u> <u>1984-85</u> <u>\$ 000</u>	<u>Actual</u> <u>1985-86</u> <u>\$ 000</u>	<u>Budget</u> <u>1985-86</u> <u>\$ 000</u>
(1) Transfer from Works and Services Account:			
Per Treasurer's Statement	<u>477 199</u>	<u>693 558</u>	<u>761 339</u>
Reallocated to:			
Transport authorities	352 100	423 102	433 100
Rural Water Commission	..	5 801	..
Capital Works Authority	84 521	*264 655	278 400
Amount transferred to balance the Consolidated Fund	<u>40 578</u>	..	<u>49 839</u>
	<u>477 199</u>	<u>693 558</u>	<u>761 339</u>
(2) Loan Repayments:			
Per Treasurer's Statement	<u>26 717</u>	<u>45 695</u>	<u>47 560</u>
Reallocated to:			
Capital Works Authority	..	6 662	..
Commonwealth payments	1 009	**1 465	1 465
Loan repayments	<u>25 708</u>	<u>37 568</u>	<u>46 095</u>
	<u>26 717</u>	<u>45 695</u>	<u>47 560</u>
(3) Commonwealth Payments:			
Per Treasurer's Statement:			
Commonwealth payments			
- recurrent	2 821 300	3 068 930	3 068 864
- capital	641 509	646 142	648 501
Proceeds of loan raisings	216 949	177 003	177 003
States (Works and Housing) Assistance Act 1982	<u>45 082</u>	<u>75 858</u>	<u>75 858</u>
	3 724 840	3 967 933	3 970 226
Plus loan repayments (refer (2) above)	<u>1 009</u>	<u>1 465</u>	<u>1 456</u>
	<u>3 725 849</u>	<u>3 969 398</u>	<u>3 971 691</u>
Reallocated to:			
Commonwealth payments	<u>3 725 849</u>	<u>3 969 398</u>	<u>3 971 691</u>
* Balance comprising part of the loan raisings by the Capital Works Authority on behalf of the State (\$266 million) which had been credited to the Works and Services Account during the year.			
** Received from the Commonwealth under the States Grants (Home Care) Act 1969.			

3.2.4 Actual receipts of the Consolidated Fund exceeded those of the previous year, \$8 827 million, by \$831 million. Receipts from State sources increased by \$615 million and constituted 59.1 per cent of the total compared with 57.7 per cent in the previous year. Receipts from Commonwealth sources were \$244 million more than in the previous year. Loan raisings from State sources amounted to

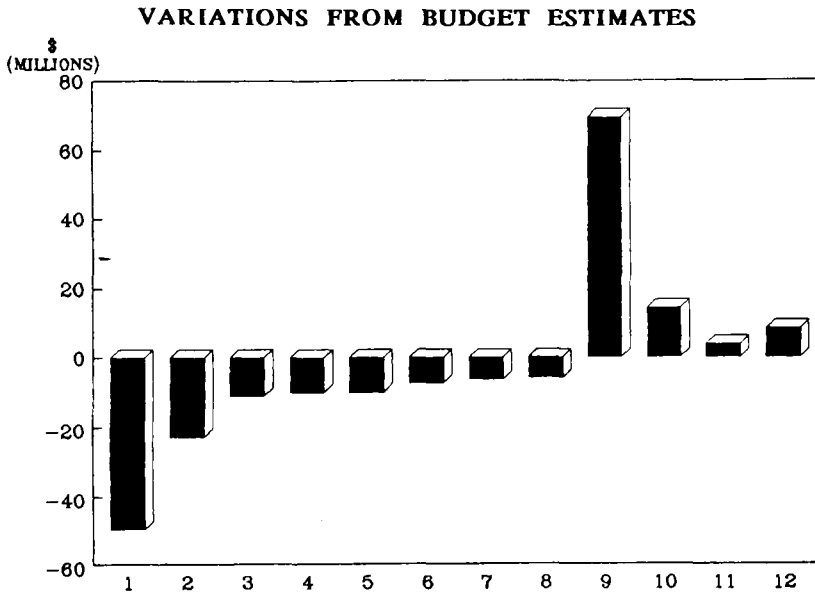
\$361 million compared with \$218 million in 1984-85, while loan raisings from Commonwealth sources were \$253 million as against \$262 million in the previous year.

Comparison with Budget

3.2.5

Chart 3.2A illustrates the variations from Budget estimates.

CHART 3.2A



	<u>Shortfalls</u>	<u>Excesses</u>
	<u>\$000</u>	<u>\$000</u>
1 Transfer from Works and Services Account	49 839	..
2 Land revenue	22 754	..
3 Fees and charges for departmental services	11 039	..
4 Transport authorities - other	9 998	..
5 Loan repayments	8 527	..
6 Rural Water Commission	7 334	..
7 Loan raising - Capital Works Authority	6 363	..
8 Other	7 362	..
9 Taxation	..	69 445
10 Loan raisings - State Development Account	..	14 261
11 Revenue previously paid to the Trust Fund	..	3 912
12 Other	..	8 322
Net shortfall	<u>..</u>	<u>27 276</u>
	<u>123 216</u>	<u>123 216</u>

Taxation

3.2.6 Taxation receipts in 1985-86 increased by \$268.5 million over those of the previous year and were \$69.4 million in excess of the Budget estimates. Details of the variations are provided in Table 3.2C:

TABLE 3.2C

	<u>Actual</u>		<u>Budget</u>	<u>Variation</u>	
	<u>1984-85</u>	<u>1985-86</u>	<u>Estimate</u>	<u>from Budget</u>	<u>Estimate</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>%</u>
Payroll tax	1 064 189	1 179 316	1 169 200	10 116	1
Probate duty	8 475	2 154	3 000	(846)	(39)
Land Tax	153 273	183 020	175 000	8 020	5
Totalizator commission	81 929	93 020	89 000	4 020	5
Tattersall duty	201 855	198 114	211 900	(13 786)	(7)
Motor Car Act 1958					
Section 7A fees	50 830	54 843	53 900	943	2
Betting and bookmakers' turnover tax	13 562	15 541	15 000	541	4
Duty on insurance business	124 992	99 467	99 200	267	..
Other stamp duty	613 594	725 205	656 650	68 555	10
Financial institutions duty	90 724	104 988	101 700	3 288	3
Licencing fund payment	72 467	77 440	76 300	1 140	2
Licences					
Tobacco	104 584	111 472	107 000	4 472	4
Petroleum	192 443	210 810	228 000	(17 190)	(8)
Motor Drivers	34 910	32 148	31 000	1 148	4
Environment Protection Authority	3 654	2 795	3 300	(505)	(16)
Motor car third party insurance surcharge - abolished 1.1.85	10 343
Miscellaneous	4 430	4 462	5 200	(738)	(14)
	<u>2 826 254</u>	<u>3 094 795</u>	<u>3 025 350</u>	<u>69 445</u>	<u>2</u>

3.2.7 The major variations from the previous year or from budget are discussed below.

Other Stamp Duty

3.2.8 Other Stamp Duty increased by \$111.6 million from \$613.6 million in 1984-85 to \$725.2 million in 1985-86. The duties which were mainly responsible for the large increase were:

(1) Land Transfers

Receipts from this source increased by \$44.5 million from \$312 million to \$356.5 million due mainly to the growth in the value of business property and housing sales.

(2) Motor Vehicles

Duty on the sale and resale of motor vehicles increased by \$18.1 million in 1985-86 as follows:

	<u>1984-85</u> <u>\$000</u>	<u>1985-86</u> <u>\$000</u>	<u>Increase</u> <u>\$000</u>
Stamp Duties Office	55 737	65 872	10 135
Road Traffic Authority	<u>77 499</u>	<u>85 499</u>	<u>8 000</u>
	<u>133 236</u>	<u>151 371</u>	<u>18 135</u>

The main reasons for the variations were as follows:

(i) Duty Collected by Stamp Duties Office

The increase in duty on used cars collected by the Stamp Duties Office was largely due to the continued effect of the motor car duty task force's detection of underdeclared market values on used cars sold by car dealers and other inspection activities conducted by the Stamp Duties Office.

(ii) Duty Collected by Road Traffic Authority

The main reason for the increase in duty collected by the Road Traffic authority was the higher value of new cars registered.

(3) Share Brokers Statement

Revenue from this source rose from \$33.5 million in 1984-85 to \$68.2 million in 1985-86, representing an increase of 104 per cent. The main reasons for the increase were greater market turnover coupled with high share values and takeover activity within the market.

Financial Institutions Duty

3.2.9 Duty imposed under the Financial Institutions Duty Act 1982 increased by \$14.3 million to \$104.9 million in 1985-86, an increase of 15.8 per cent, due mainly to greater business activity.

Petroleum Products Licences

3.2.10 Revenue from petroleum licences increased by \$18.4 million to \$210.8 million in 1985-86, an increase of 9.5 per cent.

3.2.11 There was a shortfall of anticipated revenue of \$17.1 million for 1985-86 which was due to the declining world price of crude oil which led to a reduction in the value of petroleum products sold.

Duty on Insurance Business

3.2.12 Revenue from this source declined from \$124.9 million in 1984-85 to \$99.4 million, a reduction of \$25.5 million due to the abolition of stamp duty on workers' compensation premiums.

Payroll Tax

3.2.13 Despite an increase in the basic exemption level from \$200 000 to \$222 500, payroll tax receipts in 1985-86 increased by \$115.1 million to \$1179.3 million, due to a growth in earnings and employment.

Probate Duty

- 3.2.14 The amount of \$2.1 million collected (1984-85, \$8.4 million) represented finalisation of duty outstanding before the abolition of probate duty on estates of persons who died after 1 January 1984.

Tattersall Duty

- 3.2.15 The decrease in duty from Tattersall consultations of \$3.7 million was principally caused by the revision in July 1985 of the Saturday Night Tattslotto game from a selection of 6 from 40 numbers to 6 from 45 numbers. The Budget papers indicated that it was anticipated that the change would result in higher revenues but at the same time indicated that rates of growth experienced in the 1970's could no longer be expected. Actual receipts of \$198 million were 7 per cent below Budget estimate.

Land Tax

- 3.2.16 Receipts from land tax totalled \$183 million and exceeded the amount collected in 1984-85 by \$29.7 million. The increase in duty arose from new site values being used for land in the metropolitan area and the collection of tax assessed in prior years.

Taxation Assessed and Not Collected

- 3.2.17 Details of taxation assessed but uncollected at 30 June 1986 compared with 30 June 1985 are as follows:

	<u>30.6.85</u> \$000	<u>30.6.86</u> \$000
Land Tax	51 809	64 264
Payroll Tax	13 925	14 715
Probate Duty	4 821	4 604
Gift Duty	<u>212</u>	<u>443</u>
	<u>70 767</u>	<u>*84 026</u>

* *Subject to audit verification at date of preparation of this report*

Transport Authorities

- 3.2.18 The Transport Act 1983 requires that transport authorities pay to the Public Account the proceeds of the sale of assets and the proceeds of borrowings.
- 3.2.19 Moneys paid into the Public Account from transport authorities in 1985-86 amounted to \$473 million (1984-85, \$411.9 million) made up of the sale of assets \$49.9 million (1984-85, \$59.8 million) and proceeds of borrowings \$423.1 million (1984-85, \$352.1 million).
- 3.2.20 The Act also provides for the Treasurer to determine the allocation of the proceeds to the Consolidated Fund or the Works and Services Account in the Trust Fund. In 1985-86 the proceeds from the sale of assets were credited to the Consolidated Fund under the heading "Loan Raisings, Works Grant etc", while the proceeds from borrowings were credited to Works and Services Account.

Public Authorities

- 3.2.21 Revenue under this item is derived from 3 sources:
- (1) dividends payable by certain authorities under the Public Authorities (Dividends) Act 1983;
 - (2) a contribution by the Gas and Fuel Corporation under the Public Authorities (Contributions) Act 1966; and
 - (3) a payment by the State Bank under the State Bank Act 1958.
- 3.2.22 The public bodies designated in the Public Authorities (Dividends) Act are:
- * Gas and Fuel Corporation
 - * Grain Elevators Board
 - * Melbourne and Metropolitan Board of Works
 - * Port of Melbourne Authority
 - * State Electricity Commission.
- 3.2.23 The Act provides that each public body shall transfer a dividend of a percentage (not exceeding 5 per cent) of the public equity of the body to the Consolidated Fund in 1983-84 and subsequent financial years. The percentage is to be determined by the Treasurer after consultation with the Minister responsible for the public body.
- 3.2.24 In addition to the dividend payable, the Gas and Fuel Corporation is required to pay 33 per cent of its total revenue to the Consolidated Fund on a monthly basis. Of the total amount of \$208.9 million paid to the Consolidated Fund, \$177.9 million represented the statutory contribution under the Public Authorities (Contributions) Act 1966 and the balance of \$31 million represented the dividend for the year. The increase of \$13.7 million in the contribution under the Public Authorities (Contributions) Act 1966 over the amount collected in 1984-85 was due to additional turnover of the Corporation.
- 3.2.25 Section 49A of the State Bank Act 1958 provides for the Bank to pay to the Consolidated Fund:
- "(a) an amount equivalent to the total amount of income tax that would have been payable by the Commissioners by or under any Act of the Commonwealth of Australia if the Commissioners of the State Bank of Victoria were not a State-owned commercial enterprise; and
 - (b) such amount by way of dividend out of profits or accumulated profits as is determined by the Treasurer after consultation with the Commissioners."
- 3.2.26 The amount paid to the Consolidated Fund by the Bank comprised \$40.3 million under (a) and \$11 million under (b). In addition, the Bank also paid an amount of \$3.6 million to the Consolidated Fund in respect of the State's equity (refer paragraph 3.1.32 of this report).
- 3.2.27 For comparative purposes, Table 3.2.D shows the amount paid by the various public bodies by way of dividends or contributions, during the past 2 years and the increase/decrease in 1985-86.

TABLE 3.2D

	<u>Actual</u>	<u>Actual</u>	<u>Variance</u>	
	<u>1984-85</u>	<u>1985-86</u>	<u>Increase</u>	<u>(Decrease)</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>%</u>
Gas and Fuel Corporation	191 810	208 992	17 182	9
State Electricity Commission	70 000	80 000	10 000	14
Melbourne and Metropolitan Board of Works	56 800	60 000	3 200	6
State Bank	41 065	51 366	10 301	25
Port of Melbourne Authority	6 000	5 000	(1 000)	(17)
Grain Elevators Board	5 000	4 500	(500)	(10)
	<u>370 675</u>	<u>409 858</u>	<u>39 183</u>	<u>11</u>

Recoveries of Debt Charges

Transactions for the Year

3.2.28 Table 3.2E sets out the variations in the recoupment of debt charges over the past 2 years.

TABLE 3.2E

	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Variation</u>	
	<u>1984-85</u>	<u>1985-86</u>	<u>Estimate</u>	<u>from Budget</u>	<u>Estimate</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>%</u>
Housing	77 742	80 524	81 000	(476)	(1)
State Development Program	35 215	75 699	74 500	1 199	2
State Electricity Commission	26 460	62 245	*62 170	75	-
Rural Finance Commission	26 336	11 398	11 480	(82)	(1)
Melbourne and Metropolitan Board of Works	24 929	24 885	24 907	(22)	-
Water and sewerage authorities	7 914	13 065	8 200	4 865	59
Other	19 834	18 566	21 825	(3 259)	(15)
	<u>218 430</u>	<u>286 382</u>	<u>284 082</u>	<u>2 300</u>	<u>1</u>

* Includes \$35 million shown in Budget papers as Recall of Advances.

3.2.29 In previous reports comment was made that as a result of shortfalls between Budget estimates and actual receipts, attention should be given to providing more accurate forecasting. It is pleasing to note that, apart from the adjustment referred to above, the 1985-86 Budget estimate was considerably more accurate.

3.2.30 The amount shown above for State Development Program, \$75.6 million, arises from an internal accounting entry made to enable departmental programs to be charged with nominal principal repayments and interest payments relating to loans from the State Development Account used to finance capital works related to the particular program.

3.2.31 The actual principal repayments and interest payments are charged against Special Appropriations - State Development Account Repayment of Advances and Interest. However, as payments charged to special appropriations are not allocated to programs, the aforementioned accounting entry is made.

3.2.32 In my opinion, expenditure under special appropriations should be allocated in the Treasurer's Statement directly to programs. Such a move would eliminate the necessity for the internal accounting entries described above to be made, and would provide more meaningful information as to both actual program expenditure and actual receipts by the State.

Fees and Charges for Departmental Services

3.2.33 Fees and charges for departmental services amounted to \$273 million (1984-85, \$238.7 million) and comprised inter-agency transfers of \$115.5 million and fees and charges of \$157.5 million.

3.2.34 Inter-agency transfers generally relate to the recovery of costs by a department for services carried out on behalf of another department. Included in the recoveries in 1985-86 was an amount of \$11.8 million being the payment to the Consolidated Fund by the Melbourne and Metropolitan Board of Works of part of the metropolitan improvement rate levied by the Board. The amount transferred was to meet the costs of those planning responsibilities which had been transferred from the Board to the Ministry for Planning and Environment on 1 July 1985.

3.2.35 Fees and charges collected during the year were \$9.5 million more than collections in 1984-85. Principal increases were in fees received by the Corporate Affairs Office and charges by the Government Printing Office which were respectively \$3.3 million and \$2.3 million higher than in the previous year.

Loan Raisings

3.2.36 Loan raisings by the State during the past 2 years, excluding loans from the Commonwealth, were obtained from the following sources:

	<u>1984-85</u>	<u>1985-86</u>
	<u>\$000</u>	<u>\$000</u>
Capital Works Authority	84 521	272 742
State Development Account	<u>133 180</u>	<u>88 861</u>
	<u>217 701</u>	<u>361 603</u>

3.2.37 The Capital Works Authority borrowed the amount of \$272.7 million, on behalf of the State, from the Victorian Public Authorities Finance Agency. The Order in Council establishing the Authority provides that all moneys borrowed be paid to the Public Account to the credit of the Consolidated Fund or the Works and Services Account in the Trust Fund. Of the borrowings in 1985-86, \$266 million was credited to the Works and Services Account and \$6.7 million was credited to the Consolidated Fund.

Land Revenue

3.2.38 Variations in land revenue over the past 2 years are set out in Table 3.2F.

TABLE 3.2F

	<u>Actual</u> <u>1984-85</u> <u>\$000</u>	<u>Actual</u> <u>1985-86</u> <u>\$000</u>	<u>Budget</u> <u>Estimate</u> <u>1985-86</u> <u>\$000</u>	<u>Variation</u> <u>from Budget</u> <u>Estimate</u> <u>\$000</u> <u>%</u>	
Land	10 882	14 101	12 320	1 781	16
Mining	858	1 122	1 000	122	14
Royalties					
- petroleum	197 461	202 761	228 400	(25 639)	(13)
- other	<u>8 625</u>	<u>10 532</u>	<u>9 550</u>	<u>982</u>	<u>11</u>
	<u>217 826</u>	<u>228 516</u>	<u>251 270</u>	<u>(22 754)</u>	<u>(9)</u>

3.2.39 The principal reason for the decrease in revenue under this heading compared to the Budget estimate was in respect of petroleum royalties. Actual revenue from this source was \$202.8 million as against the Budget estimate of \$228.4 million.

3.2.40 This decrease was because petroleum production levels in 1985-86 fell below the projected level due to the cut back in local production in the latter part of the year, following a downturn in international oil prices. The subsequent effect was a dramatic decline in receipts from petroleum royalties.

Revenue Previously Paid to Trust Fund - Recurrent and Capital

3.2.41 Receipts in 1985-86 credited to the Consolidated Fund under the classification Revenue Previously Paid to Trust Fund amounted to \$232.4 million (1984-85, \$234.5 million).

3.2.42 It is my opinion that the recording of receipts under this classification does not provide meaningful information to a reader of the Treasurer's Statement. The items included under this heading should be recorded under more appropriate descriptions which readily identify the nature of the receipt. For example, the portion of motor vehicle registration fees credited to the recurrent sector is included with other receipts under the description Transport. It would be more meaningful if the total motor vehicle registration fees paid to the Public Account were recorded in one figure under that description.

3.2.43 If it is still desired to highlight those amounts credited to the Consolidated Fund which would have previously been paid to trust funds, had those funds not been abolished in 1982-83, then such information could be provided in an Appendix to the Treasurer's Statement.

Miscellaneous Receipts

3.2.44 Miscellaneous receipts in 1985-86 amounted to \$150.7 million (1984-85, \$177.8 million).

3.2.45 After allowing for the non-recurring item of \$38 million in relation to the Portland Smelter Unit Trust, receipts increased by \$11.5 million over those in the previous year. Major increases (decreases) are set out in Table 3.2G.

TABLE 3.2G

\$000

*	recoup of superannuation charges as a result of an increase in the number of pensioners and the payment by the Country Fire Authority, \$1.3 million, and the Road Construction Authority, \$2.6 million, of superannuation charges incurred but not paid in 1984-85	11 570
*	repayment of a loan made by the Minister of Transport to the State Transport Authority	5 000
*	receipt of dividends on the Government's equity in the State Bank and the Victorian Economic Development Corporation	5 000
*	interest received on the Public Account	(11 851)

Transfer from the Trust Fund - Works and Services Account

3.2.46 Table 3.2H sets out transactions in the Works and Services Account over the past 2 years.

TABLE 3.2H

	<u>Actual</u> <u>1984-85</u> <u>\$000</u>	<u>Actual</u> <u>1985-86</u> <u>\$000</u>
Balance 1 July	<u>90 416</u>	<u>49 839</u>
Receipts		
Transport authorities		
Road Construction Authority	9 000	16 700
Road Traffic Authority	4 000	6 000
Metropolitan Transit Authority	219 600	240 028
State Transport Authority	<u>119 500</u>	<u>160 374</u>
	<u>352 100</u>	<u>423 102</u>
Capital Works Authority	84 521	266 000
Rural Water Commission	<u>..</u>	<u>5 801</u>
	<u>84 521</u>	<u>271 801</u>
	527 037	744 742
Less payments		
Transfer to Consolidated Fund	<u>477 198</u>	<u>693 558</u>
Balance 30 June	<u><u>49 839</u></u>	<u><u>51 184</u></u>

3.2.47 The Rural Water Commission is required by the Water Act 1958 to pay all borrowings to the Public Account to be credited to the Trust Fund - Works and Services Account.

3.2.48 The Public Account Act 1958 enables the Treasurer to direct that any part or the whole of the balance standing to the credit of the Works and Services Account from time to time be credited to the Consolidated Fund.

3.2.49 In September 1986 the Treasurer determined that \$693.5 million of the balance standing to the credit of the account on 30 June 1986 be credited to the Consolidated Fund.

3.2.50 Now that the appropriation for both recurrent expenditure and capital expenditure is covered within the one Appropriation Act, the question is raised as to whether there is a need for the Works and Services Account to be maintained. It would, in my opinion, be preferable for all moneys received to be credited to the Consolidated Fund and any surplus, having regard to the fact that legislation provides that the total of the sums issued out of the Consolidated Fund cannot exceed the amounts to the credit of the Fund, either be retained in the Consolidated Fund or transferred to an appropriate account within the Trust Account. Surpluses could then be used to offset any deficit in revenue raisings in future years.

Loan Repayments

3.2.51 The total amount credited to the Consolidated Fund under the heading Loan Repayments amounted to \$37.6 million (1984-85, \$25.7 million).

3.2.52 The details below indicate that the classification Loan Repayments does not appropriately describe the majority of receipts making up this amount. As commented upon in Section 2.1 of this report, the classification of receipts under meaningful headings needs to be addressed. Loan repayments in 1985-86 were made up of:

	<u>\$000</u>
Loans by the State to public bodies	
- Repayment of principal and interest	8 760
Sale of Crown land	12 516
Sale of education properties	9 811
Sale of St. Nicholas Hospital	4 736
Recoup of expenditure	981
Rural Water Commission - sale of assets	709
Recoup of licence fee	<u>50</u>
	<u><u>37 563</u></u>

Commonwealth Payments to the State

3.2.53 Moneys received by the State from the Commonwealth are credited to the Consolidated Fund and are reported in the Treasurer's Statement under the classification of "Commonwealth Payments" or "Loan Raisings, Works Grant etc".

3.2.54 In addition to the amounts shown below, the State receives further funds from the Commonwealth which are credited to the Trust Fund. Details of these amounts are contained in Section 3.5 of this report.

3.2.55 Table 3.2I sets out details of moneys received from Commonwealth sources and credited to the Consolidated Fund in 1985-86.

TABLE 3.2I

	<u>Actual</u> <u>1984-85</u> <u>\$000</u>	<u>Actual</u> <u>1985-86</u> <u>\$000</u>	<u>Increase</u> <u>Decrease</u> <u>\$000</u>	<u>%</u>
Financial Assistance				
Grant	2 019 927	2 248 332	228 405	11
Health Grant	344 218	371 037	26 819	8
Medicare Compensation				
Grant	249 187	256 040	6 853	3
Proceeds of Loan				
Raisings	216 949	177 003	(39 946)	(18)
Education Grant	231 998	231 655	(343)	-
Roads Grant	248 466	245 150	(3 316)	(1)
Works Grant	131 016	140 186	9 170	7
Housing Grant	149 195	156 126	6 931	5
Home Care	8 394	18 372	9 978	118
Pre-school Child				
Education	9 015	4 508	(4 507)	(50)
Transport Improvement	19 000	8 750	(10 250)	(54)
Works and Housing				
Assistance	45 082	75 858	30 776	75
Drug Education	-	3 054	3 054	-
Hospital Equipment	-	12 500	12 500	-
Repatriation Hospital -				
Bundoora	7 114	6 052	(1 062)	(15)
Other	<u>46 288</u>	<u>14 774</u>	<u>(31 514)</u>	<u>(75)</u>
	<u>3 725 849</u>	<u>3 969 398</u>	<u>243 549</u>	<u>7</u>

Financial Assistance Grant

3.2.56 Commencing in 1985-86 the former tax sharing grants were replaced by financial assistance grants. These grants are calculated on a base amount, being the total amount paid by the Commonwealth to the States in 1984-85, and are escalated in accordance with movements in prices and a real growth factor of 2 per cent. Distribution to the States is based on per capita relativities recommended by the Commonwealth Grants Commission. This arrangement is to last until 1987-88.

Health Grant

3.2.57 For the triennium 1985-86 to 1987-88, health grants are determined on the same basis as for financial assistance grants. Prior to 1985-86 the grants were based on Commonwealth tax collections in the previous year.

Home Care Grant

3.2.58 The increase of \$8.2 million resulted from additional funding made available to the States under agreements that the States maintain existing levels of service.

Hospital Equipment Grant

3.2.59 The grant of \$12.5 million was for the purchase of capital equipment in teaching hospitals under an undertaking by the Commonwealth to provide capital grants to the States over 3 years commencing 1985-86.

3.3 CONSOLIDATED FUND PAYMENTS - OVERVIEW

Introduction

3.3.1 Legislative authority for payments from the Consolidated Fund is contained in:

- (1) many Acts of Parliament which specifically authorise the payment of such expenses as debt charges, pensions, etc. on a continuing basis, known as Special Appropriations;
- (2) the Public Account Act 1958 which authorises the Treasurer to make advances from the Public Account and to transfer moneys to or from the Works and Services Account and the Consolidated Fund; and
- (3) the relevant Appropriation Act which provides annual authorities for the recurrent and works and services expenditures of departments, known as Annual Appropriations.

3.3.2 Details of the amounts applied, compared with Budget estimates and with those of the previous year, are contained in Table 3.3A.

TABLE 3.3A

	<u>Actual</u> <u>1984-85</u> <u>\$000</u>	<u>Actual</u> <u>1985-86</u> <u>\$000</u>	<u>Budget</u> <u>1985-86</u> <u>\$000</u>
Special Appropriations	1 338 573	1 338 648	1 335 912
Annual Appropriations	<u>7 489 155</u>	<u>8 347 673</u>	<u>8 377 686</u>
	<u>8 827 728</u>	<u>9 686 321</u>	<u>9 713 598</u>

Special Appropriations

3.3.3 Special appropriations for the payment of debt charges, certain salaries and general expenses, pensions and other services are provided for on a continuing basis in many Acts of Parliament. These appropriations do not require annual authorisation.

3.3.4 A comparison of the special appropriations for the last 2 years under broad headings is given in Table 3.3B.

Debt Charges

3.3.5 Debt charges amounted to \$702.1 million compared with \$643.9 million in 1984-85 excluding the repayment of advances received from the Cash Management Account.

3.3.6 Debt charges increased by \$58.3 million over those incurred in the previous year. Such increase was due mainly to increased interest charges of \$48.5 million and an increase of \$18.4 million in the repayment of borrowings from the State Development Account. These increases were offset by a reduction of \$10.3 million in the State's contribution to the National Debt Sinking Fund, due to the decrease in the rate of contribution from 1.2 to 0.85 per cent of the net public debt as at the preceding 30 June.

TABLE 3.3B

	<u>Actual</u> <u>1984-85</u> <u>\$000</u>	<u>Actual</u> <u>1985-86</u> <u>\$000</u>	<u>Increase</u> <u>(Decrease)</u> <u>\$000</u>	<u>%</u>
Debt Charges				
Interest including exchange	551 262	599 831	48 569	
Repayment of advances				
State Development Account	30 200	48 604	18 404	
National Debt Sinking Fund	47 618	37 274	(10 344)	
Repayment of advances				
Commonwealth-State housing and soldier settlement	13 299	13 822	523	
Loan management, flotation expenses etc.	<u>1 473</u>	<u>2 579</u>	<u>1 106</u>	
Total Debt Charges	<u>643 852</u>	<u>702 110</u>	<u>58 258</u>	9
Salaries and Allowances	<u>14 906</u>	<u>20 876</u>	<u>5 970</u>	40
General Expenses	<u>8 156</u>	<u>5 229</u>	<u>(2 927)</u>	(36)
Other Services				
Transfers to Hospitals and Charities and Mental Hospitals Funds (Tattersall Receipts)	200 680	193 077	(7 603)	
Transfers to Hospitals and Charities Fund (Totalizator Receipts)	81 929	93 019	11 090	
Insurers Guarantee and Compensation Supplementation Fund	18 035	..	(18 035)	
Criminal injuries compensation	4 392	7 817	3 425	
Transfers to Trust Funds established under the Racing Act 1958	18 477	19 863	1 386	
Other	<u>2 856</u>	<u>2 072</u>	<u>(784)</u>	
Total Other Services	<u>326 369</u>	<u>315 848</u>	<u>(10 521)</u>	(3)
Pensions				
State Transport Authority	49 953	55 314	5 361	
Other	<u>205 883</u>	<u>239 271</u>	<u>33 388</u>	
Total Pensions	<u>255 836</u>	<u>294 585</u>	<u>38 749</u>	15
Total Special Appropriations	<u>1 249 119</u>	<u>1 338 648</u>	<u>89 529</u>	7

3.3.7

As was the case in 1984-85 all advances received from the Cash Management Account were repaid by 30 June. The amount advanced and repaid in 1985-86 was \$310.8 million (1984-85, \$198.6 million). Interest paid on such advances, which were of a short term nature, amounted to \$1 million (1984-85, \$0.7 million).

Salaries and Allowances

- 3.3.8 The passing of the Magistrates' Courts (Appointment of Magistrates) Act 1984 provided continuing parliamentary authority for the payment of the salaries of Stipendiary Magistrates. Previously the authority for the payment of such salaries had been provided on an annual basis as part of the cost of the Attorney-General's Program - Administration of Justice.
- 3.3.9 The cost of these salaries of \$4.4 million was the principal reason for the increase in Salaries and Allowances from \$14.9 million in 1984-85 to \$20.8 million in 1985-86.

General Expenses

- 3.3.10 Included in the expenditure of \$5.2 million relating to general expenses is an amount of \$2.8 million being payments made honouring a guarantee given by the Treasurer in respect of the repayment of borrowings and associated costs on behalf of the South Melbourne Cricket Club Limited.
- 3.3.11 The guarantee was issued under the provisions of the Crown Land (Reserves) Act 1958. The loan was taken up by the South Melbourne Cricket Club Limited for the purpose of erecting an indoor sports and recreation centre. Due to adverse trading conditions the Club was unable to meet the repayment of the loan and has been placed into receivership.

Contribution to the Hospitals and Charities Fund and Mental Hospitals Fund - Tattersall Receipts

- 3.3.12 Contributions to the funds are noted in Table 3.3C.

TABLE 3.3C

	<u>1984-85</u>	<u>1985-86</u>	<u>Increase</u> <u>(Decrease)</u>	
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>%</u>
Tattersall Consultations				
Hospital and Charities Fund	174 193	160 902	(13 291)	
Mental Hospitals Fund	25 900	29 656	3 756	
Soccerpool				
Mental Hospitals Fund	<u>587</u>	<u>2 519</u>	<u>1 932</u>	
	<u>200 680</u>	<u>193 077</u>	<u>(7 603)</u>	(4)

- 3.3.13 The net decrease in contributions to these funds resulted from the duty received from Tattersall consultations which was commented upon in paragraph 3.2.15 of this Report. The apportionment between the funds is determined by the Treasurer.

Pensions (other than State Transport Authority)

- 3.3.14 Government contributions for pensions increased by \$33.4 million, from \$205.8 million in 1984-85 to \$239.2 million in 1985-86.
- 3.3.15 Payments made to schemes administered by the State Superannuation Fund increased by \$35.5 million. The number of pensions increased significantly during the year following the introduction of an optional early retirement scheme for officers attaining the age of 55 years. This fact, together with the twice yearly C.P.I. adjustment to pensions were the principal reasons for the increase.

3.3.16 There was also a decrease of \$2.1 million in the contribution to the Parliamentary Superannuation Fund to offset an excess contribution of the same amount made in 1984-85.

Annual Appropriations

3.3.17 Annual appropriations comprised the following:

(1) Appropriation (1985-86, No. 1) Act 1985

Departmental program payments for the year were authorised by this Act.

(2) Section 4 of the Appropriation (1985-86), No. 1) Act 1985

Section 4 of this Act authorised the Treasurer in 1985-86 to issue out of the Consolidated Fund such additional amounts as were necessary to meet increases in salaries and associated expenditure resulting from any Act or determination to the extent that the amounts provided in the Appropriation Act were insufficient. In 1985-86, \$98.8 million was authorised by the Treasurer to meet increases in salary costs (1984-85, \$20.3 million).

The major amounts authorised under the provisions of the Act were Education, \$40.7 million and Health, \$35.1 million.

(3) Treasurer's Advance

The Public Account Act 1958 authorises the temporary issue and application from the Public Account of any sums not exceeding in all \$30 million for advances to the Treasurer to enable him to meet urgent claims that may arise before parliamentary sanction is obtained. The Treasurer applied \$26 million from this source in 1985-86. In addition, a further sum of \$121.2 million was made available to the Treasurer in 1985-86 under the authority of the Appropriation (1985-86, No. 1) Act 1985 (Advance to Treasurer - Program No. 729) of which \$117.7 million was expended.

(4) Transfers under Section 19 of the Appropriation (1985-86, No. 1) Act 1985

The Appropriation (1985-86, No. 1) Act 1985 provided the Treasurer with authority to transfer funds between sub-divisions of programs within the same department.

In accordance with the Act, the Treasurer's Statement gives particulars of transfers approved during the year.

(5) Transfers under Section 25 of the Audit Act 1958

Section 25 of the Audit Act 1958 permits the appropriated amount of any item to be increased by the amount of an offsetting reduction in another item in the same sub-division.

Such transfers between items are authorised by the Governor-in-Council. During the year transfers totalling \$14.1 million were effected under Section 25 of the Audit Act 1958. In compliance with this directive a statement containing the relevant information is submitted in the Appendix to this Report.

(6) Block Funding

Departments may make transfers between the following sub-items:

- * travelling and subsistence
- * office requisites and equipment, printing and stationery
- * books and publications
- * postal and telephone expenses
- * motor vehicles - purchase and running expenses
- * fuel, light, power and water
- * incidental expenses
- * consultants and special projects.

Table of Payments by Departments

3.3.18 Payments from annual appropriations for the last 2 years are set out in Table 3.3D.

TABLE 3.3D

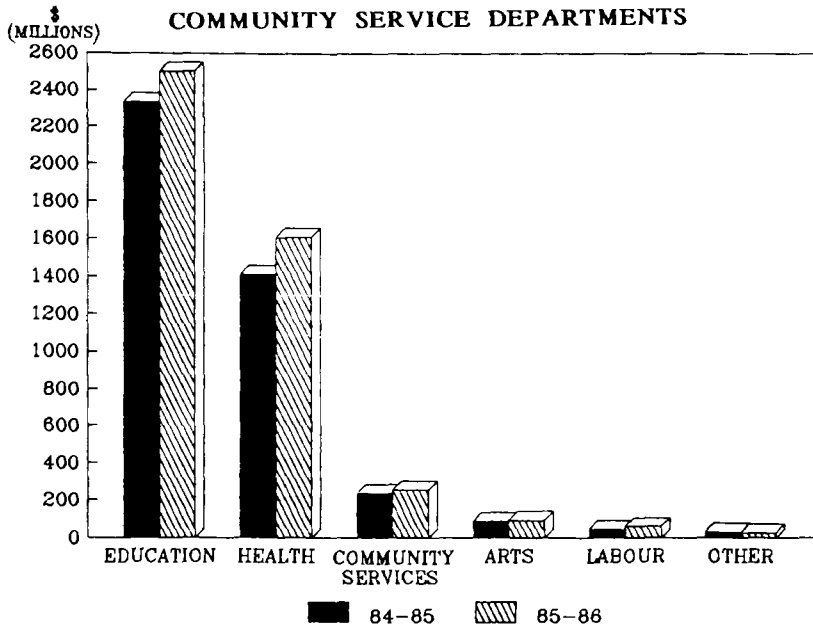
	<u>Actual</u> <u>1984-85</u> <u>\$000</u>	<u>Actual</u> <u>1985-86</u> <u>\$000</u>	<u>Increase</u> <u>(Decrease)</u>	
			<u>\$000</u>	<u>%</u>
Education	2 335 025	2 503 362	168 337	7.2
Transport	1 449 762	1 633 221	183 459	12.6
Health	1 410 156	1 612 229	202 073	14.3
Treasurer	443 065	506 548	63 483	14.3
Police and Emergency Services	367 247	418 323	51 076	13.9
Housing	203 669	242 514	38 845	19.1
Community Services	235 081	254 037	18 956	8.1
Attorney-General	145 004	179 644	34 640	23.9
Conservation, Forests and Lands	149 625	164 078	14 453	9.6
Water Resources	157 036	152 346	(4 690)	(2.9)
Property and Services	120 569	137 261	16 692	13.8
Industry, Technology and Resources	101 736	123 835	22 099	21.7
Agriculture and Rural Affairs	99 212	102 612	3 400	3.4
Arts	86 124	90 685	4 561	5.3
Labour*	43 163	58 518	15 355	35.6
Planning and Environment	31 253	47 075	15 822	50.6
Public Works	36 871	40 570	3 699	10.0
Premier and Cabinet	26 668	30 196	3 528	13.2
Sport and Recreation	20 246	17 895	(2 351)	(11.6)
Parliament	14 710	16 954	2 244	15.3
Consumer Affairs	4 920	6 376	1 456	29.6
Local Government	4 945	5 476	531	10.7
Ethnic Affairs	<u>3 068</u>	<u>3 918</u>	<u>850</u>	<u>27.7</u>
Total Annual Appropriations	<u>7 489 155</u>	<u>8 347 673</u>	<u>858 518</u>	<u>11.5</u>

* *With effect from 8 April 1986 the Department of Employment and Industrial Affairs was renamed the Department of Labour.*

Analysis of Variations

3.3.19 Charts 3.3A, 3.3B and 3.3C compare actual payments made for the past 2 years under 3 major program budget classifications. Comments on the main variations for the year follow each chart.

CHART 3.3A



	<u>1984-85</u>	<u>1985-86</u>
	\$ 000	\$ 000
Education	2 335 025	2 503 362
Health	1 410 156	1 612 229
Community Services	235 081	254 037
Arts	86 124	90 685
Labour	43 163	58 518
Other		
Sport and Recreation	20 246	17 895
Local Government	4 945	5 476
Ethnic Affairs	3 068	3 918

Education

3.3.20 Payments in 1985-86 increased by \$168.3 million (7.2 per cent) to a total of \$2 503 million. The major increases were:

- (1) 5.8 per cent in salary costs over 1984-85 amounting to \$85 million;
- (2) 8.4 per cent in operating expenditure amounting to \$35.3 million;
- (3) 12.5 per cent in grants for technical and further education amounting to \$34.5 million; and
- (4) 7.5 per cent in works and services payments amounting to \$13.2 million.

Health Department Victoria

3.3.21 Payments increased from \$1 410 million in 1984-85 to \$1 612 million in 1985-86, an increase of \$202 million or 14.3 per cent. Actual payments also exceeded the amount provided for in the Budget by \$60 million. Details are as follows:

(1) Recurrent Expenditure

Major variances included:

- (i) the transfer of an additional \$131 million, a 14 per cent increase on 1984-85 payments of \$952 million, to the Hospitals and Charities Fund to meet increased maintenance payments to hospitals and nursing homes;
- (ii) an increase of \$19.5 million or 7.5 per cent in salaries and associated costs, including an increase of \$5 million (17 per cent) in these costs for the Central Office and Centrally Administered Services program; and
- (iii) increased expenditure of \$4 million on the Drug Campaign Program and \$3 million on the Commonwealth-State program for Combating Acquired Immune Deficiency Syndrome.

(2) Works and Services Expenditure

Works and Services expenditure of \$72.3 million under the Short-Term Hospital Services program increased by \$26.6 million or 58 per cent over the \$45.7 million expended in 1984-85. Major reasons for this increase were:

- (i) prepayment of rent to the South Eastern Medical Complex Ltd. of \$6 million;
- (ii) purchase of a kidney lithotripter for \$3.5 million; and
- (iii) expenditure for the redevelopment of Geelong and Frankston hospitals of \$7 million and \$6 million respectively.

Labour

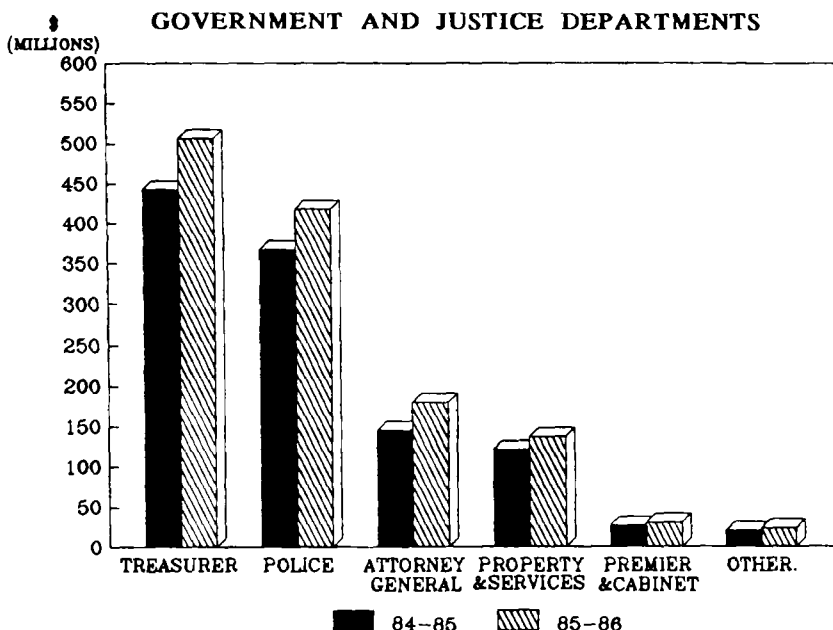
3.3.22 Expenditure increased by \$15.4 million (35.7 per cent) from \$43.1 million in 1984-85 to \$58.5 million in 1985-86. The major reasons for the increase were:

- (1) increased salary costs of \$3.9 million due mainly to additional staff required to implement new initiatives of Dangerous Goods and Occupational Health and Safety legislation;
- (2) other recurrent expenditure totalling \$2.8 million in relation to Occupational Health and Safety; and
- (3) expenditure of \$8.9 million on grants, subsidies and expenses of the Youth Guarantee Project.

Sport and Recreation

3.3.23 Payments fell from \$20.2 million in 1984-85 to \$17.9 million in 1985-86. The main reason for the reduction in expenditure was that in 1985-86 only \$143 000 was expended on the Sandown Formula 1 motor racing circuit compared with \$3.1 million in 1984-85. Other increases in expenditure amounted to \$0.7 million.

CHART 3.3B



	<u>1984-85</u>	<u>1985-86</u>
	<u>\$ 000</u>	<u>\$ 000</u>
Treasurer	443 065	506 548
Police	367 247	418 323
Attorney General	145 004	179 644
Property and Services	120 569	137 261
Premier and Cabinet	26 669	30 196
Other		
Parliament	14 710	16 954
Consumer Affairs	4 920	6 376

Treasurer

3.3.24

Payments made by the Department of Management and Budget increased from \$443.1 million in 1984-85 to \$506.5 million in 1985-86. The increase of \$63.4 million (14.3 per cent) was due mainly to:

- (1) the rebate paid to the State Electricity Commission of Victoria in respect of electricity supply to Alcoa of Australia Limited at Point Henry under the Flexible Tariff Deed, \$11.7 million;
- (2) the levy paid to the Accident Compensation Commission of \$37.5 million to cover WorkCare for government employees (other than transport authorities and the Rural Water Commission);
- (3) a payment of \$30 million to the State Insurance Office in respect of third party insurance;
- (4) payments of \$31.9 million to the Capital Works Authority in relation to borrowings; and

- (5) interest and principal on advances from the State Development Account, applied for works and purposes other than through the State Development Program, \$28.8 million. This amount was credited to the Consolidated Fund under Recovery of Debt Charges.

3.3.25 These were offset by decreases in:

- (1) Capital Development Fund expenditure of \$40.3 million. Although expenditure in relation to the State Development program fell by \$72.3 million, expenditure on the Major Initiatives program increased by \$32 million. Principal items of expenditure in 1985-86 were:

<u>State Development Program</u>	<u>\$000</u>
Education facilities	11 955
Melbourne Remand Centre	10 727
Police forensic science laboratory	5 192
Webb Dock rail	4 450
 <u>Major Initiatives Program</u>	
Equity	
Victorian Investment Corporation	15 000
Daratech Pty. Ltd.	3 000
Coal Corporation of Victoria	5 000
Loan to Victorian Investment Corporation	12 000
Purchase of laboratory - Environment Protection Authority	7 650
Victorian Public Offices Corporation - grant towards purchase of office building	6 315
Victorian Institute of Post Secondary Education - Youth Guarantee Program	4 147

- (2) the workers compensation premium paid to the State Insurance Office of \$32.3 million consequent upon the introduction of WorkCare; and
- (3) ex-gratia refunds of stamp duty on corporate reconstructions of \$12.3 million.

Police and Emergency Services

3.3.26 Payments in 1985-86 increased by \$51 million, a 13.9 per cent increase over 1984-85 to a total of \$418.3 million. The major increases were:

- (1) an increase of 10.7 per cent (\$30.2 million) in salary costs brought about by:
- (i) the introduction of the 38 hour week in August 1985;
 - (ii) the national wage increase of 3.8 per cent in November 1985; and
 - (iii) the Police Anomalies Award of 1.9 per cent effective from May 1986; and
- (2) an increase of \$12.3 million in corporate works and services expenditure due mainly to:
- (i) major building works increasing by \$6 million;
 - (ii) a \$3.5 million increase in interest and principal on advances under the State Development Program; and
 - (iii) the purchase of a new helicopter, \$1 million.

Attorney-General

3.3.27

Payments in 1985-86 totalled \$179.6 million, an increase of \$34.6 million or 23.9 per cent over the payments in 1984-85. The main reasons for the increase were:

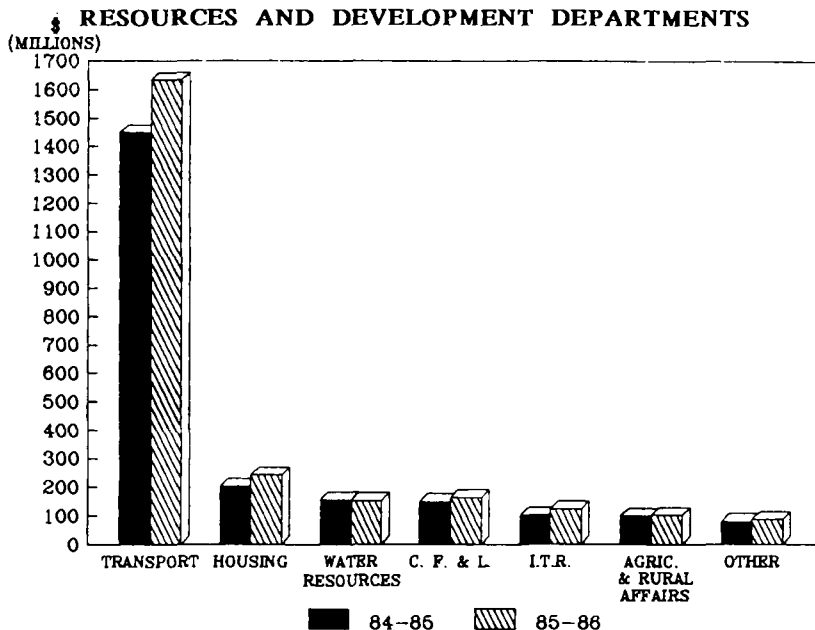
- (1) \$13.7 million in salary costs mainly due to additional staff employed in the Office of Corrections;
- (2) \$13.9 million in works and services expenditure due mainly to the redevelopment of prisons and the provisions of a new coronial services centre; and
- (3) \$1.7 million in operational expenses of courts administration.

Property and Services

3.3.28

Payments increased from \$120.5 million in 1984-85 to \$137.2 million in 1985-86, an increase of 13.8 per cent. The major increase was in amounts paid for rents, allowances, municipal and other charges on behalf of government departments, which increased from \$36.4 million in 1984-85 to \$45.9 million in 1985-86.

CHART 3.3C



	<u>1984-85</u>	<u>1985-86</u>
	<u>\$ 000</u>	<u>\$ 000</u>
Transport	1 449 762	1 633 221
Housing	203 669	242 514
Water Resources	157 036	152 346
Conservation, Forests and Lands	149 625	164 078
Industry, Technology and Resources	101 736	123 835
Agriculture and Rural Affairs	99 212	102 612
Other		
Planning and Environment	31 253	47 075
Public Works	36 871	40 570

Transport

3.3.29 Expenditure increased by \$183.4 million to \$1 633.2 million in 1985-86. The main reasons for the variance were:

- (1) an increase of \$53.3 million in contributions towards operating expenses of the Metropolitan Transit Authority to meet:
 - (i) the introduction of new transport services;
 - (ii) the introduction of optional early retirement; and
 - (iii) general increase in operating expenses including finance charges;
- (2) an increase of \$16.7 million in private bus subsidies to cover general upgrading of services;
- (3) a net increase in works and services expenditure of \$14.9 million relating to the Metropolitan Transit Authority and the State Transport Authority. This net increase is represented by:
 - (i) an increase of \$32.5 million relating to finance charges; and
 - (ii) a decrease of \$17.6 million relating to expenditure on construction, development purchases and maintenance;
- (4) an increase of \$53.9 million in contributions towards operating expenses of the State Transport Authority to meet:
 - (i) the shortfall of freight revenue due to the reduced grain harvest and industrial disputes;
 - (ii) additional costs incurred in respect of the early retirement plan; and
 - (iii) general increases in operating expenses including finance charges;
- (5) an increase of \$8.6 million in contributions to operating expenses of the Road Traffic Authority to cover general increases in operating expenses including increased salary costs associated with the further development of the Road Safety and Traffic Management program;
- (6) an increase of \$11 million in works and services expenditure to meet the further development of the traffic facilities program, the upgrading and development of computer systems and other works at the Road Traffic Authority; and
- (7) a net increase of \$20.6 million in contributions to operating expenses and works and services expenditure of the Road Construction Authority to meet the maintenance and construction of road facilities and the general operations of the Authority.

Housing

3.3.30 Payments increased from \$203.7 million in 1984-85 to \$242.5 million in 1985-86. The increase of \$38.8 million (19.1 per cent) was due mainly to:

- (1) an increase in the rental assistance program of \$26.6 million and related to additional expenditure on the upgrading of rental stock of houses; and
- (2) an increase of \$10.2 million on expenditure on the acquisition of rental stock.

Conservation, Forests and Lands

3.3.31 Payments increased from \$149.6 million in 1984-85 to \$164.1 million in 1985-86, an increase of \$14.5 million (9.6 per cent). The main reasons for the increase were:

- (1) a 12.3 per cent increase in salaries from \$76.7 million in 1984-85 to \$86.1 million in 1985-86. \$6.4 million of the increase was provided from the Treasurer's Advance;
- (2) purchase of land at Phillip Island for the purposes of penguin protection, \$2.6 million; and
- (3) establishment costs of \$1 million associated with the agreement with Australian Paper Manufacturers for the supply of pulpwood after the year 2000.

Industry, Technology and Resources

3.3.32 Payments increased from \$101.7 million in 1984-85 to \$123.8 million in 1985-86, an increase of \$22.1 million (21.7 per cent). The major reasons for the increase were:

- (1) an increase in the recurrent payments to the Victorian Tourism Commission and the Alpine Resorts Commission of 28.3 per cent from \$14.9 million in 1984-85 to \$19.1 million in 1985-86;
- (2) works and services expenditure on tourism increased by 85 per cent from \$4 million in 1984-85 to \$7.4 million in 1985-86; and
- (3) salaries also increased substantially and in Programs 472, 473 and 475 they exceeded the amount provided for in the Budget by 4.3 per cent, 3.7 per cent and 8.7 per cent respectively.

Planning and Environment

3.3.33 Payments increased by \$15.8 million (50.6 per cent) to \$47 million in 1985-86. The major increases were:

- (1) a 58.6 per cent increase in salary costs over 1984-85 amounting to \$9 million. The increase was due mainly to the transfer of the planning responsibilities of the Melbourne and Metropolitan Board of Works to the Ministry on 1 July 1985 following an amendment to the Town and Country Planning Act 1961; and
- (2) an increase of \$2.3 million in corporate works and services expenditure mainly associated with the fitout of the Olderfleet building in Collins Street which was leased by the Ministry during the year.

3.4 LONG TERM LIABILITIES OF THE STATE

Introduction

- 3.4.1 In previous reports on the Treasurer's Statement my predecessor expressed the view that, to enable the State's debt position to be readily determined, consolidated information on the long term liabilities of the State, comprising both the inner and outer budget sectors, should be included in the Treasurer's Statement.
- 3.4.2 The 1985-86 Treasurer's Statement identifies the capital liability of the State to the Commonwealth and the contingent liability in respect of the borrowings by most public bodies. The Treasurer's Statement, however, does not disclose:
- * the total public debt of the State covering both the inner and outer budget sectors
 - * the total annual debt servicing charges of the State comprising both interest and loan redemption
 - * the extent to which various State revenues are applied to debt servicing.
- 3.4.3 To assist Parliament in forming a view on the financial position of the State at 30 June 1986, I present the following information on long term liabilities. I must emphasise that the presentation in my Report of additional and consolidated information on the long term liabilities of the State must be viewed as a broad estimate only and in the nature of an interim measure pending presentation of consolidated information in the Treasurer's Statement.
- 3.4.4 My predecessor expressed the view that immediate action must be taken to consolidate the reporting of all long term liabilities of the inner and outer budget sectors to provide Parliament with the means of monitoring the financial viability of the State. I strongly support this view and recommend that this information be compiled annually by the Department of Management and Budget and reported in future Treasurer's Statements.
- 3.4.5 For presentation purposes I have grouped long term liabilities as shown below:

TABLE 3.4A

	<u>1984-85</u> <u>\$000 million</u>	<u>1985-86</u> <u>\$000 million</u>
Capital liability of the State to the Commonwealth reported as Public Debt in the Treasurer's Statement	4.4	4.5
Capital liability under Commonwealth-State Housing Agreements	1.3	1.4
Long term liabilities of public bodies subject to guarantees*	11.0	13.9
Long term leasehold commitments entered into by public bodies and the Department of Management and Budget.	<u>1.2</u>	<u>1.2</u>
	<u>17.9</u>	<u>21.0</u>

- * *this item is the aggregate of the borrowings of public bodies and does include amounts on-lent between these bodies. The exact amount of any on-lending is not available at the date of preparation of this Report.*

3.4.6 It should be noted that the information provided in this Section relates, in the main, to public bodies and departments subject to my audit. It does not deal with long term liabilities incurred by such bodies as the State Bank of Victoria which do not come within the ambit of my statutory audit.

3.4.7 Comments on each group of long term liabilities follow.

Capital Liability of the State to the Commonwealth - \$4 546 Million

3.4.8 The public debt of the State, as shown in the Treasurer's Statement, arises from loans raised on behalf of the State by the Commonwealth under the Financial Agreement.

3.4.9 In accordance with the Commonwealth and this State's Financial Agreement, the loans raised by the Commonwealth for the State are approved by the Loan Council and consist of Commonwealth securities.

3.4.10 The Agreement placed the States' sinking funds under the control of the National Debt Commission which administers the National Debt Sinking Fund. The fund receives contributions from the Commonwealth and the States and applies them towards the redemption of the public debt.

3.4.11 Victoria's total liability for these loans as at 30 June 1986 was \$4 550.1 million (30 June 1985, \$4 385.5 million). After allowing for cash at credit of the National Debt Sinking Fund, the State's capital liability to the Commonwealth under the Financial Agreement was \$4 545.8 million at 30 June 1986, compared with \$4 385.1 million at 30 June 1985.

3.4.12 Details of the liability of the State to the Commonwealth in terms of the Financial Agreement and interest thereon for the past 5 years are set out in Table 3.4B.

TABLE 3.4B

<u>Year</u>	<u>Liability to Commonwealth under the Financial Agreement as at 30 June</u> \$ 000	<u>Interest on Public Debt</u> \$ 000	<u>Average Rate</u> %
1981-82	3 932 414	359 232	9.14
1982-83	4 045 328	401 873	9.93
1983-84	4 204 126	436 017	10.37
1984-85	4 385 141	459 483	10.48
1985-86	4 550 107	495 945	10.89

3.4.13 Charts 3.4A and 3.4B illustrate the liability and the interest thereon both in actual and real 1979-80 terms.

CHART 3.4A

CAPITAL LIABILITY OF THE STATE TO THE COMMONWEALTH FOR THE PAST 5 YEARS

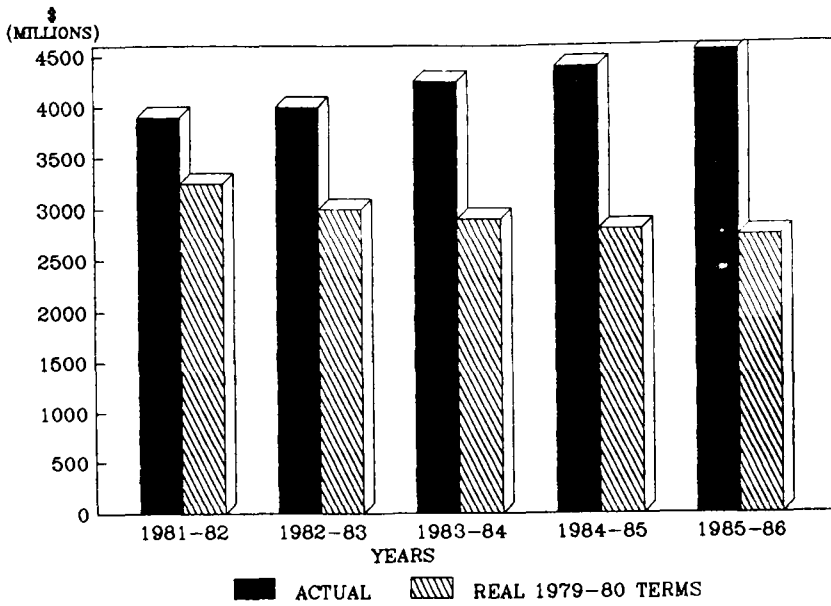
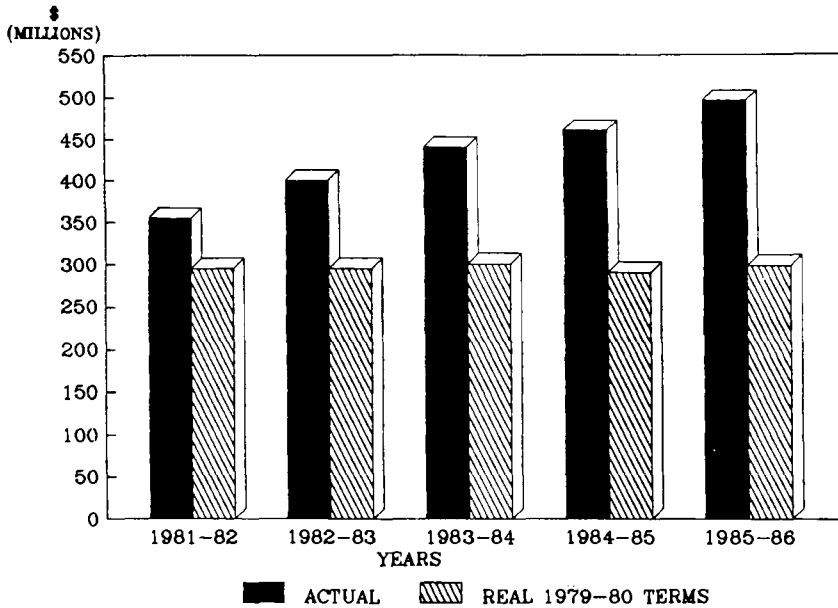


CHART 3.4B

INTEREST ON THE CAPITAL LIABILITY OF THE STATE TO THE COMMONWEALTH FOR THE PAST 5 YEARS



3.4.14 Details of the transactions with the Commonwealth during the year and the liability of the State at 30 June 1986 in terms of the Financial Agreement, together with comparative figures for the previous year, are shown in Table 3.4C.

TABLE 3.4C

	<u>1984-85</u> <u>\$000</u>	<u>1985-86</u> <u>\$000</u>
Liability to Commonwealth at 1 July	4 204 126	4 385 522
Loans raised for works	223 496	184 170
Loans raised for redemptions	<u>584 001</u>	<u>745 971</u>
Less	5 011 623	5 315 663
Loans repurchased or redeemed		
By redemption loans	566 907	719 324
By National Debt Sinking Fund	<u>59 270</u>	<u>46 215</u>
	<u>626 177</u>	<u>765 539</u>
	<u>4 385 446</u>	<u>4 550 124</u>
Increase (decrease) in public debt during the year due to variations in exchange rates for conversion of face value of overseas securities to Australian currency	<u>76</u>	<u>(18)</u>
Liability to Commonwealth as at 30 June	4 385 522	4 550 106
Less cash at credit of National Debt Sinking Fund	<u>381</u>	<u>4 303</u>
Net liability to Commonwealth as at 30 June	<u>4 385 141</u>	<u>4 545 803</u>

3.4.15 In addition, liability to the Commonwealth also exists in respect of advances made to the State for a variety of purposes pursuant to Commonwealth-State agreements and arrangements which are not included in the figure of \$4 545.8 million.

Capital Liability under the Commonwealth-State Housing Agreements - \$1 399 million

3.4.16 State borrowings as disclosed in the Treasurer's Statement under the heading "Public Debt" include liabilities totalling \$1 161 million (30 June 1985, \$1 172.1 million) to the Commonwealth in respect of advances for housing purposes under Commonwealth-State housing agreements and \$238.6 million (30 June 1985, \$163.6 million) for housing under the States (Works and Housing) Assistance Act 1982. These liabilities are not considered to be part of the public debt in terms of the Financial Agreement.

Long Term Liabilities of Public Bodies - \$13 888 million

3.4.17 The long term liabilities of other public bodies as at 30 June 1985 and 1986 are given in Table 3.4D. For the purpose of this Section I have limited the public bodies to the ones identified in the table.

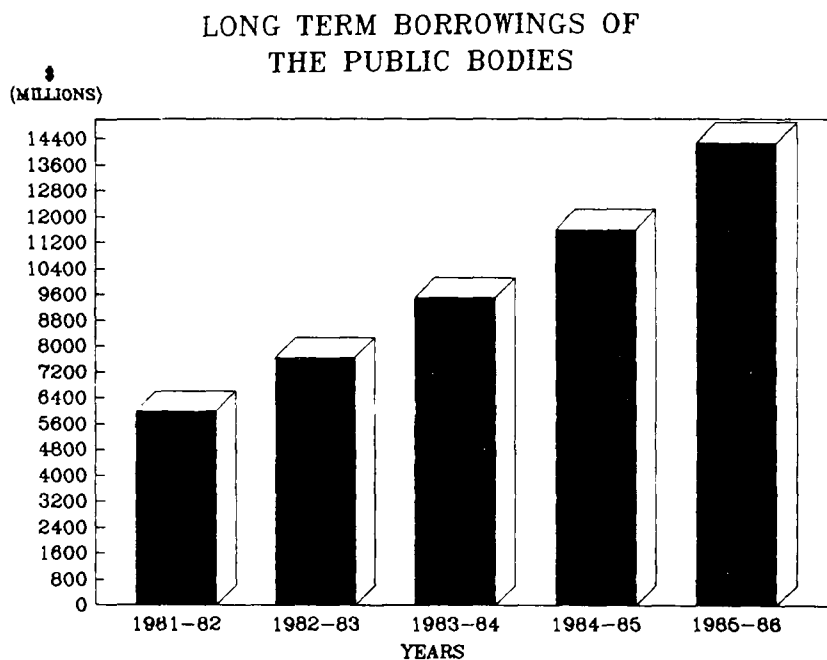
TABLE 3.4D

	<u>30.6.85</u> \$000	<u>30.6.86</u> \$000
State Electricity Commission of Victoria	6 088 000	6 952 700
State Transport Authorities	1 774 931	2 785 250
Melbourne and Metropolitan Board of Works	1 966 771	2 359 184
Victorian Public Authorities Finance Agency	590 389	933 240
Gas and Fuel Corporation	510 413	552 449
State Development Account	403 124	459 736
Victorian Economic Development Corporation	34 752	131 667
Victorian Arts Centre	79 125	78 698
Rural Water Commission of Victoria	68 057	74 166
Melbourne Wholesale Fruit and Vegetable Market Trust	12 750	12 932
Rural Finance Commission	10 648	12 617
Health Commission (Hospitals and Charities)	8 313	8 811
Director of Housing	4 731	4 258
Other public bodies subject to audit by my Office (other than water bodies)	<u>196</u>	<u>N/A</u>
	<u>11 552 200</u>	<u>13 888 425</u>

3.4.18 It should be noted that the figures are *gross borrowings* and do not take into account bank overdrafts or cash and liquid assets held. The figures have been provided by the various bodies and have not in all cases yet been verified by my Office.

3.4.19 Chart 3.4C illustrates the long term borrowings of the public bodies at 30 June for the past 5 years.

CHART 3.4C



3.4.20 Borrowings are also undertaken by local government and water bodies. Such borrowings do not give rise to a State Government liability and are not included in the figures in Chart 3.4C. The total borrowings of such authorities at 30 June 1985 and 1986 were:

	<u>30.6.85</u>	<u>30.6.86</u>
	<u>\$000</u>	<u>\$000</u>
Local Government	800 000	904 321
Water Bodies	<u>384 666</u>	<u>406 500</u>
	<u>*1 184 666</u>	<u>*1 310 821</u>

* The figures are based on the latest information provided by various bodies.

3.4.21 Long Term Leasehold Commitments - \$1 223 million

(1) Sale and Leaseback of Assets

In recent years a number of public bodies have raised funds to finance capital works programs through the sale of assets. Such assets have included trams, trains, buses, container cranes and coal dredges. As the assets sold are required for the day to day operations of the public bodies concerned, the public bodies arranged to lease back the assets. These leasehold liabilities are not disclosed in the Treasurer's Statement although they are reported in the financial statements of the individual public bodies.

Table 3.4E sets out the book value of the assets sold, the proceeds from the sale and the lease commitment as at 30 June 1986, i.e. the amount to be paid to the lessor during the period 1 July 1986 to the expiry of the lease.

TABLE 3.4E

Sale and Leaseback of Assets

	<u>Book Value</u> <u>of Assets</u> <u>Sold</u> <u>\$m</u>	<u>Proceeds</u> <u>of Sale</u> <u>\$m</u>	<u>Lease</u>	<u>Schedule of Lease Commitment</u>			
			<u>Commit</u>	<u>Payments</u>			
			<u>ment 1</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1989-91</u>	<u>1991 on</u>
			<u>July 86 on</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
			<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Metropolitan Transit Authority	189.8	204.5	391.0	37.9	38.5	110.0	204.6
Port of Melbourne Authority	7.7	9.1	15.9	1.4	1.8	7.7	5.0
State Transport Authority	191.9	251.7	544.9	43.1	43.2	130.0	328.6
State Electricity Commission	85.8	133.9	185.5	22.2	26.5	56.6	80.2
State Lease Facility	<u>N/A</u>	<u>N/A</u>	<u>54.4</u>	<u>8.2</u>	<u>9.1</u>	<u>25.1</u>	<u>12.0</u>
Total	<u>475.2</u>	<u>599.2</u>	<u>1 191.7</u>	<u>112.8</u>	<u>119.1</u>	<u>329.4</u>	<u>630.4</u>

The lease commitment is based on a principal and interest component. In addition, some leases are repayable in a foreign currency. Therefore, the lease commitment value could alter over the term of the lease due to changes in the interest component or in exchange rates. The values shown in Table 3.4E are drawn from information available at the time of preparation of this report and may not necessarily agree with the figures shown in the financial statements of the public bodies.

(2) State Lease Facility

During 1984-1985 the Government, in carrying out its policy of keeping up to date with modern computing techniques, entered into an agreement, referred to as the State Lease Facility, to lease computer equipment to the value of \$50.3 million over the next 5 years. To 30 June 1986 equipment to the value of \$33.6 million had been leased. The Government has the option to buy the equipment either during or at the expiry of the lease agreement. If the equipment is retained for the duration of the lease period lease payments from 1 July 1986 onwards will amount to \$54.4 million. This amount will, however, be subject to variations in the 90 day bill rate. Details of the repayment are shown in Table 3.4E.

(3) Other Leases

A number of government departments and public bodies have entered into lease arrangements for items such as buildings and equipment. Under these arrangements there is no option for the department or body to purchase the leased asset. For the purpose of this Report it is not practical to ascertain the lease commitment of those transactions.

Other Financial Arrangements

3.4.22 In addition to the arrangements identified under the previous headings, a number of bodies have utilised such financing arrangements as deferred payments, overseas trade credits, security deposits and other repayable front-end capital contributions which are not included in the Treasurer's Statement. At the date of this report I have not been able to quantify these financing arrangements.

Foreign Currency Transactions

- 3.4.23 Overseas borrowings by public bodies in Victoria, based on preliminary figures available, were \$1 815 million as at 30 June 1986.
- 3.4.24 Foreign exchange losses of \$198 million were incurred during the year (1984-85, \$373 million), the major contributing factor being the fall in the value of the \$A against all major currencies during the year. Of these losses, the sum of \$71 million was written off during the year (1984-85, \$63 million) and \$27 million was capitalised (1984-85, \$29 million). The balance of \$100 million (1984-85, \$281 million) was carried forward to be amortised over the period of the loans. As at 30 June 1986 total unamortised losses were \$451 million (30 June 1985, \$351 million).
- 3.4.25 As part of the foreign currency debt management, various hedging arrangements have been entered into by some of the public bodies, such as forward exchange contracts, currency swaps, options, etc.
- 3.4.26 Details of the foreign exchange transactions are incorporated in Table 3.4F.

3.4.27 The accounting treatment adopted for these transactions follows the requirements of the Annual Reporting (Business Undertakings) Regulations 1984 and the draft Australian Accounting Standard about to be issued by the Australian professional accounting bodies.

3.4.28 In evaluating the information presented it should be noted that:

- (1) the unamortised losses are "unrealised" and may either increase or decrease in the future with currency variations; and ✓
- (2) realised losses should be considered in relation to lower interest rates which may have been obtained through overseas borrowings.

TABLE 3.4F

Overseas Borrowings

	<u>State Electricity Commission</u> \$A million	<u>State Transport Authority</u> \$A million	<u>Melbourne and Metropolitan Board of Works</u> \$A million	<u>Port of Melbourne Authority</u> \$A million	<u>Total</u> \$A million
Total overseas borrowings at 30 June 1986	1.6	179	189	136	1 815
Unamortised foreign exchange losses at 30 June 1985	266	30	26	29	351
Foreign exchange losses incurred during 1985-86	130	26	17	25	198
Written off during 1985-86	53	5	6	7	71
Capitalised during 1985-86	27	-	-	-	27
<i>Unamortised</i>	316	51	37	47	451

3.4.29 The Victorian Public Authorities Finance Agency and the Victorian Transport Borrowing Authority have borrowed \$744 million and \$25 million respectively as principal and re-lent these funds to other public bodies and private sector organisations in the same terms, currencies and interest rates. Accordingly, any exchange losses will be borne by the recipient and not by these borrowing agencies. Where loans have been on-lent to other public bodies any exchange losses are shown in Table 3.4F against the relevant body.

Inner and Outer Budget Sectors - Comparison of Long Term Liabilities

3.4.30 Charts 3.4D and 3.4E illustrate the shift of liabilities from the inner to the outer budget sector over the past 5 years.

3.4.31 For the purpose of these charts liabilities under Commonwealth - State Housing Agreements, long term leasehold commitments and other financial arrangements have been excluded.

CHART 3.4D

ACTUAL LIABILITY OF THE STATE TO THE COMMONWEALTH AND PUBLIC BODIES' BORROWINGS GUARANTEED BY THE TREASURER

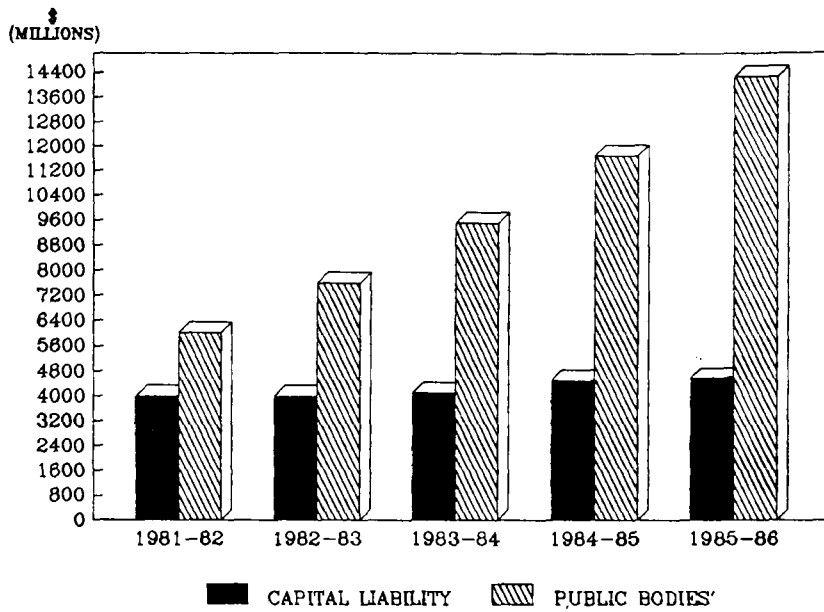
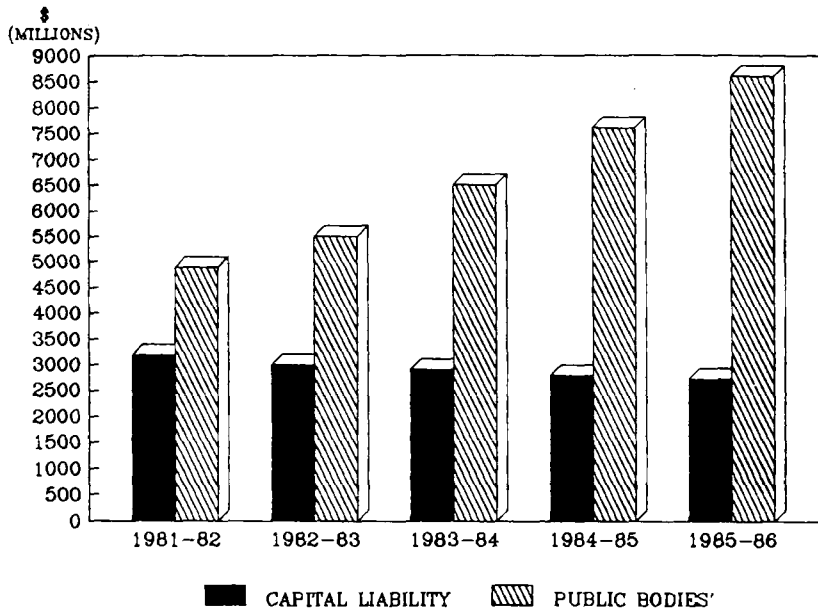


CHART 3.4E

LIABILITY OF THE STATE TO THE COMMONWEALTH AND PUBLIC BODIES' BORROWINGS GUARANTEED BY THE TREASURER IN REAL 1979-80 TERMS



3.5 THE TRUST FUND

Introduction

3.5.1 Section 8 of the Public Account Act 1958 allows the Treasurer to establish trust accounts and indicates the purpose for which they were established. Any expenditure from the trust accounts must be in accordance with the purpose of the account. The Trust Fund is separate from the Consolidated Fund.

3.5.2 The reporting of the trust accounts within the Treasurer's Statement is under 4 distinct categories, namely:

State Government Funds
Joint Commonwealth and State Funds
Commonwealth Government Funds
Prizes, Scholarships, Research and Private Donations

3.5.3 The significance of the Trust Fund, as part of the Public Account, can be demonstrated by comparing the receipts of the Trust Fund for the year, \$35 868.5 million, with the receipts of the Consolidated Fund for the year, \$9 659 million, which shows a ratio of 3.7:1.

3.5.4 The Trust Fund records transactions relating to:

- (1) various suspense and clearing accounts which have been established to facilitate accounting procedures and to improve cash management;
- (2) the Works and Services Account;
- (3) the Victorian Development Fund encompassing the Cash Management Account and the State Development Account;
- (4) the Treasury Trust Fund which is maintained in accordance with the Audit Act 1958;
- (5) several Commonwealth and joint Commonwealth/State trust accounts used for passing specific Commonwealth Grants etc. to educational institutions, housing and transport authorities;
- (6) specific State trust accounts established by legislation for specific purposes e.g. Hospitals and Charities Fund; and
- (7) accounts established to manage bequests, scholarships etc.

Review of the Trust Fund

3.5.5 Summaries of the transactions and balances of the various trust accounts comprising the Trust Fund are given in the Treasurer's Statement.

3.5.6 The following are matters arising from the examination of the Trust Fund.

(1) Works and Services Account

As detailed in paragraph 3.2.46, the balance of the Works and Services Account at 30 June 1986 was \$51.2 million. This balance was derived after borrowings totalling \$266 million made by the Capital Works Authority on behalf of the Treasurer were taken into account.

(2) Treasury Trust Fund

Comment is made in Section 3.14 on the transfer of annual appropriations from one department to another without the Treasurer's authorisation.

Operations of the Trust Fund

3.5.7 The Treasurer's Statement does not disclose comparative figures for the Trust Fund for the previous financial year. Table 3.5A gives a summary of comparisons.

TABLE 3.5A

	<u>Balances</u> <u>1 July</u> <u>\$ million</u>	<u>Receipts</u> <u>\$ million</u>	<u>Payments</u> <u>\$ million</u>	<u>Balances</u> <u>30 June</u> <u>\$ million</u>
State Government Funds				
1984-85	292.3	33 303.6	33 309.1	286.8
1985-86	286.8	34 692.8	34 674.4	305.2
Joint Commonwealth/State Funds				
1984-85	28.7	137.2	142.6	23.3
1985-86	23.3	95.6	106.6	12.3
Commonwealth Government Funds				
1984-85	11.1	957.9	948.4	20.6
1985-86	20.6	1 079.0	1 090.2	9.4
Prizes, Scholarships etc.				
1984-85	0.8	1.2	1.1	0.9
1985-86	<u>0.9</u>	<u>1.4</u>	<u>0.8</u>	<u>1.5</u>
Total 1984-85	<u>332.9</u>	<u>34 399.9</u>	<u>34 401.2</u>	<u>331.6</u>
Total 1985-86	<u>331.6</u>	<u>35 868.8</u>	<u>35 872.0</u>	<u>328.4</u>

3.5.8 At 30 June 1986, the balance of the Trust Fund was represented by:

TABLE 3.5B

	<u>30.6.85</u> <u>\$ million</u>	<u>30.6.86</u> <u>\$ million</u>	<u>Movement</u> <u>\$ million</u>
Investments for specific Trust Accounts	103.9	24.6	(79.3)
Investments on behalf of General Trust Accounts	90.9	151.2	60.3
Cash, advances and short term investments	<u>136.8</u>	<u>152.6</u>	<u>15.8</u>
	<u>331.6</u>	<u>328.4</u>	<u>(3.2)</u>

3.5.9 In the following paragraphs matters concerning the operations of the trust accounts are discussed.

State Government Funds

3.5.10 The receipts to State government trust accounts rose by \$1 389.2 million (4.2 per cent) whilst payments increased by \$1 365.3 million (4.1 per cent).

3.5.11 Significant variations occurred in many accounts and these are identified below:

- (1) The Victorian Development Fund recorded a decline in receipts of \$3 562 million (12.8 per cent) and payments of \$3 562.2 million (12.8 per cent). This was represented by:
 - (i) a decline in Cash Management Account receipts of \$3 432.7 million (12.4 per cent) and payments of \$3 432.9 million (12.4 per cent); and
 - (ii) a decline in State Development Account receipts of \$129.2 million (46.7 per cent) and payments of \$129.3 million (46.7 per cent).
- (2) Receipts to the Works and Services Account increased by \$258.3 million (59.2 per cent) and payments increased by \$217.8 million (45.6 per cent). The increase in receipts is due to the increased borrowing activity of the Capital Works Authority which increased by \$181.5 million (215 per cent). Other increases were in the borrowings of the Metropolitan Transit Authority, \$20.4 million (9.3 per cent), the State Transport Authority, \$40.9 million (34.2 per cent) and the Road Construction Authority, \$7.7 million (85 per cent).
- (3) During the year 6 new cash suspense accounts were opened through which were transacted \$4 234.2 million receipts and \$4 199.9 million payments. This represented 93 per cent of the increased receipts suspense and clearing accounts (\$4 554.1 million) and 93 per cent of payments (\$4 519.1 million). This increase has occurred due to a change in operations whereby selected departments are able to pay their own accounts from funds drawn down from the Consolidated Fund.
- (4) The Treasury Trust Fund recorded increased receipts of \$10.4 million (72 per cent) and payments of \$15.8 million (180 per cent). See Section 3.14 for further comment on the Treasury Trust Fund.
- (5) An overall increase of \$9 million (19 per cent) occurred in receipts to specific purpose operating accounts whilst payments increased by \$8.8 million (19 per cent). The introduction of 6 new accounts represented \$1.95 million receipts and \$1.5 million payments. The other increase was in the Public Offices Fund which had increased receipts of \$7.3 million and payments of \$6.8 million.
- (6) Within the accounts established to receive moneys provided by annual appropriation by Parliament there was an overall increase in receipts of \$124.3 million (8.8 per cent) and payments of \$155.4 million (11 per cent).

Major reasons were:

- (i) increased receipts of \$145.2 million (12 per cent) and payments of \$130.2 million (10.7 per cent) to the Hospitals and Charities Fund;
- (ii) increased receipts of \$5.7 million (21 per cent) and payments of \$7.2 million (27 per cent) to the Mental Hospitals Fund; and

(iii) decreased receipts of \$29.5 million to the Insurers Guarantee and Compensation Supplementation Fund but an increase in payments of \$14.7 million due to the transfer of the balance of the fund to the Accident Compensation Commission.

(7) The trust accounts established to receive levies imposed by Parliament showed an increase in receipts of \$9.4 million (6 per cent) and a net increase in payments of \$38.8 million (29 per cent).

The increase was mainly due to the establishment of the Accident Compensation Levy Trust Account with receipts and payments totalling \$37.5 million. This was offset by the transfer, under the Accident Compensation Act 1985, of balances held for the Workers Compensation Board Fund and the Workers Supplementation Fund.

Joint Commonwealth and State Funds

3.5.12 The 1985-86 financial year saw a decline in the receipts to these accounts of \$41.6 million (30 per cent) and a decline in payments from these accounts of \$35.9 million (25 per cent).

3.5.13 The major factor was a decline in activities associated with the Community Employment Program Account which had a decline in receipts of \$41.7 million and a decline in payments of \$37.2 million.

3.5.14 Other movements were with:

(1) the Commonwealth/State Bicentennial commemorative program which had increases in both receipts and payments of \$6.7 million; and

(2) the Victorian Natural Disasters Relief Account which had a decline in receipts of \$4.1 million and payments of \$4 million.

3.5.15 The balance of funds held at 30 June 1986 amounted to \$12.3 million.

Commonwealth Government Funds

3.5.16 The 1985-86 financial year saw an increase in the receipts to these accounts of \$121.1 million (12.6 per cent) and payments of \$141.2 million (14.9 per cent).

3.5.17 Major increases related to funding of local government and education are set out in Table 3.5C.

TABLE 3.5C

	<u>Receipts</u> \$ million	<u>Payments</u> \$ million
Local government grants	12.6	12.6
State grants for colleges of advanced education	71.4	79.5
State grants for universities	29.0	30.8
State grants for assistance to non-government schools (1984)	7.0	12.3
State grants for assistance to non-government schools (1986)	128.0	127.8
Adult migrant education	5.6	5.1

3.5.18 As illustrated in Table 3.5D, major decreases related to funding for education:

TABLE 3.5D

	<u>Receipts</u>	<u>Payments</u>
	<u>\$ million</u>	<u>\$ million</u>
State grants for assistance to non-government schools (1983)	113.5	112.9
Petroleum products subsidy	5.7	4.8
Commonwealth education for unemployed youth	8.2	5.0

3.5.19 Other movements concerned the allocation of Commonwealth funds under the States Grants (Schools Assistance) legislation, summarised in Table 3.5E.

TABLE 3.5E

	<u>Receipts</u>	<u>Payments</u>
	<u>\$ million</u>	<u>\$ million</u>
<u>Increases included:</u>		
States Grants (Schools Assistance) 1984		
- joint programs	1.6	4.4
States Grants (Schools Assistance) 1984		
- amended 1986 - joint programs	4.8	3.4
- amended 1986 - government programs	1.9	0.6
<u>Decreases were:</u>		
States Grants (Schools Assistance) 1983		
- government programs	2.8	3.0
States Grants (Schools Assistance) 1983		
- joint programs	5.8	7.1
States Grants (Schools Assistance) 1984		
- government programs	1.0	(2.9)

3.5.20 The balance of the Commonwealth Government Funds at 30 June 1986 totalled \$9.4 million, whereas at the same time in 1985 they totalled \$20.1 million.

Prizes, Scholarships, Research and Private Donations

3.5.21 Receipts and payments in 1985-86 totalled \$1.4 million and \$0.8 million respectively. The balance of the accounts at 30 June 1986 totalled \$1.5 million (30 June 1985, \$0.9 million).

New Trust Accounts

3.5.22 Details of new accounts opened within the Trust Fund during the year and the purpose for which they were established, as indicated in the Treasurer's approvals or enabling legislation, are set out in Table 3.5F.

TABLE 3.5F

<u>Account or Fund</u>	<u>Purpose For Which Established</u>
Canteen Trust Fund	To record the receipts and payments in connection with the operation of canteens by the Department of Property and Services.

Cash Suspense Accounts Agriculture; Community Services; Education; Health; Industry, Technology and Resources; Planning	To facilitate the drawing, by the departments, of their own creditor cheques and the drawing down of funds from the Consolidated Fund to meet such cheques.
Ethnic Public Radio Station Trust Fund	To record receipt of funds from Victoria's 150th Anniversary Board and their disbursement on a project to establish an ethnic public radio station in Melbourne.
Government Agency Maps Trust Account	To record receipts and payments by the Department of Property and Services in connection with agency map sales.
Recycling and Litter Program Trust Account	To record the receipt and disbursement of funds in connection with recycling of beverage containers and litter reduction.
Revenue Suspense Accounts Community Services Health Property and Services	To enable the prompt payment of moneys collected by the departments into the Public Account prior to determining their allocation to appropriate items in the Consolidated Fund or Trust Fund.
Sailors' Welfare Fund	To record the transfer of funds from the Consolidated Fund and of moneys held by the Public Trustee in connection with the Melbourne Sailors' Home and their disbursement to organisations which promote the welfare of sailors and persons working in the Victorian fishing and maritime industries.
Accident Compensation Levy Trust Account	To record the transfer of funds from the Consolidated Fund and their disbursement by agencies to the Accident Compensation Commission to meet levy payments under the Accident Compensation Act 1985, the first 5 days compensation and the amount of medical expenses specified in the Act.
Forest Education Project Trust Account	To record the receipt and disbursement of funds in connection with the dissemination of information and literature on forest education and conservation.
Youth Guarantee Program Trust Account	To record the receipt of funds appropriated by Parliament and their expenditure by participating agencies on operational and related costs of the program.

Accounts Closed

3.5.23

There were no accounts closed during the year. However, there were a number of accounts operated on in 1984-85 which were not used in 1985-86.

3.6 GUARANTEES

Introduction

- 3.6.1 In certain instances, authorities for guarantees have been provided by specific legislation such as that relating to co-operative housing societies. On other occasions, the State has been committed in respect of guaranteed bank overdrafts by the Executive without the specific authority of Parliament.

Guarantees Included in Treasurer's Statement

- 3.6.2 Particulars are given in the Treasurer's Statement of the contingent liability of the State in respect of guarantees issued by the Treasurer and authorised by statute, and of the contingent liability for government guarantees in respect of borrowings by State instrumentalities. The amounts involved were: guarantees issued \$1 232 million; contingent liability 30 June 1986, \$1 020 million (does not include Co-operative Societies' figures for 1985-86 which were not available at the date of preparation of this report. At 30 June 1985 guarantees to the societies totalled \$22 million of which there was a contingent liability of \$15 million).

- 3.6.3 The increase in the value of guarantees issued at 30 June 1986 of \$263 million over that of 30 June 1985 was mainly due to increases in guarantees to:

* Perpetual Executors Nominees Limited in relation to Alcoa/Portland of \$178 million

* Queen Victoria Medical Centre of \$50 million.

- 3.6.4 The contingent liability for government guarantees in respect of borrowing by State instrumentalities was in excess of \$23 668 million. No figure is available for policies, contracts or arrangements of insurance made by the State Insurance Office which are guaranteed by the Government of Victoria.

- 3.6.5 As indicated in the Treasurer's Statement, the contents have been prepared from information provided by the instrumentalities and certain figures will be subject to audit verification at the time of audit of the organisations concerned.

3.7 DISALLOWANCES AND SURCHARGES

- 3.7.1 There were no disallowances or surcharges issued during 1985-86. The current situation with the surcharges issued in 1984-85 on the former Returning Officer for the Electoral District of Prahran is that a court order has been issued against the former officer. This matter is currently under review.

3.8 TREASURER'S ACQUITTANCE

- 3.8.1 Sub-sections (1) and (2) of Section 34 of the Audit Act 1958 require me to acquit the Treasurer, in the form of the eleventh schedule to the Act, for the amount of the public moneys spent which has been ascertained by me to have been duly and properly expended. Sub-section (3) of the said Section excludes from the acquittance expenditure which is "the subject of query or observation or of show cause action or of disallowance or surcharge".

- 3.8.2 All moneys disbursed from the Public Account in 1985-86 were acquitted by me to the Treasurer except for \$19.4 million which represented the value of advances to departments on hand at 30 June 1986.



3.8.3 At 30 June 1986 the following amounts remain unacquitted from prior years:

1982-83

\$2 110 118 paid as emergency grants by the former Department of Community Welfare Services to the victims of bushfires in Victoria and which were awaiting certification by the Department in accordance with the Department of Management and Budget Regulations 1981.

1983-84

(1) \$8 899 being part of 2 advances to the Police Division of the Ministry for Police and Emergency Services for which insufficient vouchers were presented to support the payments; and

(2) \$2 400 being an advance made to the former Department of Community Welfare Services in relation to payments arising from the 1983 bushfires. The vouchers had not been certified by the departmental officers.

3.8.4 Departments are being advised of the appropriate corrective action.

3.9 GRANTS AND SUBSIDIES

3.9.1 Grants and subsidies paid during 1985-86, as identified by audit, total in excess of \$3 000 million. Special attention should therefore be given to adequate disclosure and control of these moneys which are transferred from the Public Account to third parties.

3.9.2 A Research Group on the funding of non-government agencies was established by the Social Development Cabinet Committee in 1984 to:

- (1) clarify the role of non-government agencies in providing services in accordance with government policy; and
- (2) rationalise and make more efficient the funding arrangements for non-government agencies.

3.9.3 I am pleased to acknowledge that in its report dated May 1986 the Research Group made a number of recommendations dealing with:

- * improving access to government funds
- * accountability both in terms of programmatic and non-programmatic funding
- * funding formulae
- * periods of funding
- * employment conditions in the non-government sector
- * role of peak organisations
- * capacity to raise revenue
- * co-ordinated mechanism.

3.9.4 Notwithstanding that the definition of non-government organisations excludes hospitals, major research institutions and community health centres, many of the recommendations contained in the report of the Research Group address areas of interest to audit. In particular, the section relating to accountability is consistent with audit observations and recommendations as detailed in the body of this Report.

3.9.5 Departments provide grant and subsidy payments to a wide cross-section of individuals and organisations. These range from public and private hospitals and nursing homes, schools and tertiary institutions through to pre-school committees, research teams and minority groups. Most of these recipients are not subject to my audit.

3.9.6 In examining grant and subsidy payments made by departments to third parties audit concentrated on the following aspects:

- (1) quantifying grant and subsidy payments;
- (2) accountability for government grant and subsidy outlays in terms of the adequacy of eligibility criteria, conditions and monitoring procedures established for the payment and control of grants and subsidies; and
- (3) timing of payments made to recipients.

Key Audit Observations

3.9.7 In summary, the key audit observations were:

- (1) the level of grant and subsidy payments could not be readily quantified and is not adequately disclosed in the Treasurer's Statement or departmental financial statements;
- (2) in some instances terms and conditions of grants were not formally agreed upon between grantor and recipients;
- (3) there was evidence of widespread inconsistencies in accounting for grants and subsidies;
- (4) inadequacies were detected in the monitoring by some departments of expenditure by recipients from grants and subsidies; and
- (5) the timing of grant and subsidy payments by departments was inconsistent.

Recording and Reporting of Grants and Subsidies

- 3.9.8 The Appropriation (1985-86, No. 1) Act 1985 incorporates grant and subsidy payments, in one form or another, in 59 of the State's 132 programs. The extent of government funding provided to recipients ranges from about \$300 to \$83.3 million.
- 3.9.9 The financial records maintained by some departments did not clearly identify payments which they made for individual grants and subsidies. The problem has been addressed by other departments which have implemented subsidiary ledgers and records to more readily identify this information.
- 3.9.10 Although total payments made in respect of grants and subsidies are not clearly shown in the Treasurer's Statement, audit identified grants and subsidies totalling \$2 271 million during 1985-86 (23 per cent of total State Budget outlays), none of which are subject to audit by the Auditor-General. Details are as follows:

TABLE 3.9A

	<u>\$000</u>	<u>%</u>
Agriculture and Rural Affairs	922	.04
Arts	36 965	1.63
Attorney-General	969	.04
Community Services	105 210	4.63
Conservation, Forests and Lands	1 324	.06
Consumer Affairs	1 001	.05
Education	332 984	14.67
Ethnic Affairs	650	.03
Health	1 498 209	65.99
Housing	7 567	.33
Industry, Technology and Resources	48 825	2.15
Labour (formerly Employment and Industrial Affairs)	76 331	3.36
Local Government	138 736	6.11
Planning and Environment	5 473	.24
Police and Emergency Services	755	.03
Premier and Cabinet	2 184	.10
Sport and Recreation	9 611	.42
Treasurer	1 484	.06
Water Resources	1 522	.06
	<u>2 270 722</u>	<u>100.00</u>

3.9.11 As mentioned in Section 2.1 of this Report, the Treasurer's Statement does not take account of materiality in determining those items which require separate disclosure. For example, there is no individual disclosure of grants to universities and colleges of advanced education. These grants totalling \$648.2 million during 1985-86 were disclosed as 2 single items in the Trust Fund of the Treasurer's Statement. Audit considers that there is inconsistency in the reporting of such grants when compared with the separate disclosure of, say, the \$1 000 grant to the Productivity Promotion Council of Australia or the \$300 grant to the Australian Legion of Ex-Servicemen and Women (Preston sub-branch).

3.9.12 In some cases grants were not distinguished in the Appropriation Act or the Treasurer's Statement from a variety of other items such as loans or other expenditure related to a program. Examples are as follows:

TABLE 3.9B

	<u>Program</u>	<u>Item</u>	<u>Actual</u> <u>1985-86</u> <u>\$000</u>
Community Services	Program 183 Protective and Substitute Care	<i>Grants and other expenses in connection with State wards, children and young persons in homes and other non-governmental institutions</i>	20 714
Education	Program 288 Non-Government Schools	<i>Non-government schools - grants and expenses</i>	132 761
Labour (formerly Employment and Industrial Affairs)	Program 322 Corporate Services	<i>Special projects - grants, loans and expenses</i>	6 638
	Program 333 Youth Guarantee	<i>Youth Guarantee projects - grants, subsidies and expenses</i>	8 976
Industry, Technology and Resources	Program 473 Services to Industry and Commerce	<i>Incentive and other development payments, loans and other assistance and expenses in connection with the development of industry industry</i>	51 588
Sport and Recreation	Program 651 Sport, Recreation and Leisure	<i>Sports facilities including works, grants and loans</i>	3 763
Treasurer	Program 726 Transfer and other payments	<i>Other grants, loans and payments to municipalities, public bodies and approved organisations or persons, including funds held or projects still under consideration and subject to finalisation</i>	5 059

3.9.13 Further, some payments are made from trust accounts and are therefore not included in program expenditure, for example the funding of public hospitals and nursing homes through the Hospitals and Charities Fund.

Recommendations

3.9.14 The recording and reporting of grants and subsidies would be improved by:

- (1) all departments establishing subsidiary ledgers and records to clearly identify payments made by way of grants and subsidies;
- (2) separate disclosure of material grants and subsidies in the Treasurer's Statement; and
- (3) grants and subsidies being separately identified from other payments under program expenditure in the Treasurer's Statement.

Terms and Conditions of Grants and Subsidies

3.9.15 The review revealed that terms and conditions of grants and subsidies had in most cases been prescribed by the department making such payments. In a few instances listed hereunder terms and conditions had not been formally prescribed by the respective parties.

TABLE 3.9C

	<u>Program Number</u>	<u>Item</u>	<u>Actual 1985-86 \$000</u>
Community Services	Program 183	Voluntary organisations and institutions	1 090
	Program 184	Supported accommodation and assistance	8 474
	Program 186	Subsidies to various authorities towards cost of kindergarten supervisors, maintaining kindergarten and pre-school centres	51 875
	Program 186	Subsidies towards costs of maintaining creches and day nurseries	3 329
Health	Program 381	Blood transfusion service	12 192
	Program 381	Program for combating AIDS	3 132
	Program 387	Private hospitals schools of nursing	3 057

3.9.16 The absence of formally agreed terms and conditions may result in the misuse of public moneys by recipient organisations and restrict subsequent action by grantors.

Recommendations

3.9.17 It is recommended that:

- (1) terms and conditions be formally agreed prior to disbursing public funds to third parties to ensure that funds are used for the intended purpose;
- (2) Measures be taken by the Department of Management and Budget to include in a standard code of administrative practice terms and conditions applicable to grants and subsidies. Such requirements could include, in the event of agreed terms and conditions not being met, provision for:
 - * moneys to be repaid
 - * the grant or subsidy to be terminated
 - * future use of any assets acquired from the grant.

Accountability

3.9.18 There is no standard code of practice regulating grants and subsidies by departments. As a result, widespread inconsistencies in accounting, reporting, auditing requirements and monitoring procedures were evident in the administration of grants and subsidies.

3.9.19 The requirement for receipt of audited financial statements varied between departments. Some departments required audited statements when grants exceeded \$2 000 whilst others did not require such statements until the grant exceeded \$20 000. In some instances there were no requirements for the provision of audited statements.

3.9.20 This lack of uniformity in the management of grant and subsidy payments has resulted in an inconsistent approach in relation to the accountability of such payments.

3.9.21 Many of the organisations in receipt of substantial government funds (such as public hospitals with total grant and subsidy payments exceeding \$1 000 million) are not audited by the Auditor-General. There is also no provision for these organisations to report to Parliament on the expenditure of such funds.

Recommendations

3.9.22 To achieve uniformity in the accountability for grants and subsidies and provide for improved control over such expenditure, it is recommended that the Department of Management and Budget develop a standard code of administrative practice for grants and subsidies. Items which should be considered for inclusion in such a code are:

- (1) grant stratum levels to be set for which the receipt of audited financial statements or reports is necessary;
- (2) financial statements or reports to clearly disclose the receipts and expenditure from grants and subsidies;
- (3) a professional audit opinion to be expressed as to whether expenditure conforms with the conditions of the grant or subsidy;
- (4) effective monitoring procedures to be established and consistently applied by grantors; and

(5) programs funded by grants and subsidies to be monitored and evaluated against agreed objectives.

3.9.23 It is also recommended that the Auditor-General, in order to properly report to Parliament, be given access to the relevant records of recipients of substantial grants and subsidies.

Inadequate Monitoring by Departments

3.9.24 Audit enquiries revealed several instances where monitoring by departments of expenditure by the recipient organisation was inadequate. In particular, audit noted that there was:

- (1) poor control and follow up over the receipt of financial information;
- (2) no action to follow up outstanding audited financial statements;
- (3) inadequate review of certain claims;
- (4) failure to determine whether funds provided had been correctly applied for the intended purpose;
- (5) insufficient review of financial statements to assess the need for the level of funding; and
- (6) failure to determine whether interest earned on grant moneys forms part of the grant.

3.9.25 Certain of these deficiencies were observed in the following departments:

TABLE 3.9D

<u>Department</u>	<u>Grant/Subsidy</u>	<u>Actual</u> <u>1985-86</u> <u>\$000</u>
Health	Program for Combating AIDS	3 132
	Walter and Eliza Hall Institute	840
	Baker Medical Research Institute	201
	Anti-Cancer Council Victoria	273
	Howard Florey Institute	265
Housing	Community resources development	1 070
	Tenant consultation and participation groups	1 300
	Community facilities	1 900
	Regional housing councils	330
	Emergency housing	1 800
	Local government and community housing	2 800
Police	Central Fingerprint Bureau, Sydney	111
Sport and Recreation	Grants approved by the Racecourse Licences Boards to various race clubs from the the Resources Development Fund	6 710
Treasurer	National Safety Council of Australia	57
	Commonwealth Parliamentary Association	179

Industry, Technology and Resources	Within growth and revitalisation firms Decentralisation Assistance Schemes: Payroll tax rebates and LPG rebates	5 047 31 776
	Innovation and technology	700
	Quality Information Service	400
	Museum of Chinese Australian History:	
	1984-85 - Tourism Program	955
	1985-86 - Tourism Program	684
	Payments in connection with the development of industry	170

Timing of Grants and Subsidies Payments

- 3.9.26 An examination of the timing of payments revealed a variety of practices in that grants and subsidies were paid in advance, upon receipt of claims, or progressively on a needs basis.
- 3.9.27 Audit was unable to ascertain the rationale used by grantor organisations in determining which of the above bases was used.
- 3.9.28 It is pleasing to note that of the 19 departments paying grants and subsidies, 13 paid either upon receipt of claims or progressively on a needs basis. However, in the remaining 6 departments, there were instances of grants and subsidies totalling \$29.4 million being paid in advance.
- 3.9.29 While advance payments may be appropriate in some instances, audit is concerned at the impact on cash management of the Public Account.

Recommendation

- 3.9.30 It is recommended that the Department of Management and Budget review arrangements where payments are made in advance to ensure their justification.

3.10 ENGAGEMENT OF CONSULTANTS

3.10.1 During 1985-86 an examination was undertaken within all departments to identify the total costs involved in employing consultants and the extent of compliance with legislative requirements and Effectiveness Review Committee guidelines in the appointment and control of consultants.

3.10.2 In addition, certain of the public bodies funded substantially from the Consolidated Fund, such as the State Transport Authority and the Metropolitan Transit Authority, were reviewed to determine the extent of their compliance with the guidelines issued by the Effectiveness Review Committee.

Departments

3.10.3 Consultancy engagements approved for departments by the Effectiveness Review Committee in 1985-86 were \$29 million, details of which are set out in Table 3.10A.

TABLE 3.10A

	<u>\$000</u>
Agriculture and Rural Affairs	199
X Arts	9 161
Auditor-General	7
Community Services	408
Conservation, Forests and Lands	431
Consumer Affairs	275
Corrections	51
Education	782
Health	1 652
Housing	1 053
Industry, Technology and Resources	2 355
Labour	1 112
Law	459
Management and Budget	5 546
Planning and Environment	1 363
X Police and Emergency Services	1 543
Premier and Cabinet	376
Public Service Board	262
Property and Services	223
Public Works	88
Transport	318
Water Resources	<u>1 323</u>
	<u>*28 987</u>

* Total relates only to those proposals that were forwarded to the Effectiveness Review Committee and excludes arrangements totalling \$21 million involving construction projects administered by the Public Works Department. These arrangements can be approved by the Minister for Public Works and do not require submission to the Committee.

3.10.4 The approval process for the engagement of consultants in departments is governed by guidelines issued by the Premier which include:

- (1) consultancies up to the value of \$7 000 (\$3 000 prior to 14 May 1986) to be approved by the Chief Administrator;
- (2) consultancies between \$3 000 and \$7 000 (prior to 14 May 1986) required approval in writing from the Treasurer as to the terms of engagement;
- (3) consultancies exceeding \$7 000 (prior to and after 14 May 1986) must first be forwarded to the Effectiveness Review Committee, an advisory body established within the Department of the Premier and Cabinet, for assessment and recommendation prior to submission to the Treasurer for approval; and
- (4) after the approval of the Treasurer is obtained any agreements exceeding \$10 000 (\$3 000 prior to 14 May 1986) must also be authorised by the State Tender Board, or in certain circumstances by Order in Council.

3.10.5 On 14 November 1984 the Treasurer advised all departments that expenditure may not be committed to consultancies until all necessary approvals had been obtained.

3.10.6 The following matters arising from the review were noted.

Proposals Forwarded to Effectiveness Review Committee

3.10.7 The majority of proposals were forwarded in accordance with the approved processes. However, instances were observed where consultancy proposals were either not forwarded to the Effectiveness Review Committee or were forwarded for noting after the consultancy had actually commenced. The majority of instances of non-compliance related to the Departments of Management and Budget, Labour and Health, details of which are given in Table 3.10B:

TABLE 3.10B

<u>Department</u>	<u>Proposals Examined</u>		<u>Proposals Forwarded Retrospectively</u>		<u>Proposals Not Forwarded</u>	
	<u>No.</u>	<u>\$000</u>	<u>No.</u>	<u>\$000</u>	<u>No.</u>	<u>\$000</u>
Health	21	1 259	7	329
Labour	13	2 265	2	750	5	1 368
Management and Budget	43	1 649	2	176	*23	644

* 22 agreements, totalling \$630 000 related to the establishment of WorkCare.

3.10.8 There were also minor instances of non-compliance noted in the Public Works Department and the Ministry for Planning and Environment. The most common reason advanced by the departments for not complying with the guidelines was the need to engage consultants with a minimum of delay.

- 3.10.9 However, it was also noted that the Ministry of Education did not refer to the Effectiveness Review Committee's attention certain consultancies arranged and funded from Commonwealth sources, and in which the Ministry's participation was limited. It is considered that all proposals for consultancies, irrespective of the source of funding, should fall within the ambit of the policy guidelines. The Effectiveness Review Committee supports this view.

Performance Review

- 3.10.10 The guidelines of the Effectiveness Review Committee require copies of consultants' reports, together with a performance evaluation, to be forwarded to the Committee as soon as practical after project completion. From these reports the Committee advises the Treasurer on the effectiveness of consultancy projects and the performance of individual consultants.
- 3.10.11 This requirement was generally ignored, particularly in departments which engage a large number of consultants. As such, the effectiveness of the Committee's role in assessing consultancy proposals is impaired.

Monitoring of Expenditure on Consultants

- 3.10.12 The majority of departments did not have adequate management procedures, including use of a register of consultants to monitor expenditure on consultancy engagements. Although use of a register is not a mandatory requirement, it is considered to be a basic management control enabling identification of all engagements, approvals given, budgets, progressive monitoring of expenditure and reporting requirements.
- 3.10.13 The consequences of failure to maintain adequate monitoring procedures could lead to such occurrences as consultants failing to complete engagements within a specified time and within financial constraints, resulting in unauthorised cost overruns. In this regard registers of consultants were not maintained by the Health Department and Department of Conservation, Forests and Lands. This led to an inability within these departments to readily identify all engagements.

Retrospective Approval of Consultancy Agreements by Order in Council

- 3.10.14 Once the approval of the Treasurer has been obtained for consultancy engagements exceeding \$10 000 (\$3 000 prior to 14 May 1986) the Department of Management and Budget Regulations 1981 require the expenditure to be authorised by the State Tender Board. The exception to this requirement is where the expenditure is specifically authorised by an Order in Council on the recommendation of the Treasurer.
- 3.10.15 Use of an Order in Council approval becomes expedient in circumstances where engagements have already commenced as the Tender Board will not grant retrospective approval, and since May 1986 has referred all such requests to the Treasurer for approval where legal obligations exist.
- 3.10.16 Reference has been made, in previous reports to Parliament, to the failure by departments on certain occasions to obtain Tender Board approval prior to the engagement of consultants. Audit observed a significant improvement by departments in complying with this requirement in 1985-86.

- 3.10.17 Despite the above improvement, however, there has been increasing use of Order in Council approvals to authorise consultancy engagements which had already commenced, particularly in the Departments of Conservation, Forests and Lands, Labour and Management and Budget. In the Department of Labour alone, audit identified 6 instances where consultancies totalling in excess of \$2 million had already commenced when Order in Council approval was given. The value of consultancies which commenced before approval was identified as \$340 000 in the Department of Management and Budget and \$303 000 in the Department of Conservation, Forests and Lands.
- 3.10.18 In audit opinion this action effectively by-passes the Treasurer's requirements concerning the need to obtain all necessary approvals before expenditure is committed to consultancies.
- 3.10.19 It was also noted that 2 Orders in Council for the Department of Conservation, Forests and Lands, authorising consultancy arrangements valued at \$156 000, were not published in the Government Gazette in accordance with legal requirements.

Public Bodies

- 3.10.20 In 1984 the Premier advised Ministries that all public bodies which were funded wholly or in part from the Consolidated Fund were subject to the Effectiveness Review Committee's guidelines.
- 3.10.21 There are many public bodies in receipt of varying levels of public funding. The audit review established that very few of these bodies submit consultancy proposals to the Committee.
- 3.10.22 Reasons advised by public bodies for not complying with the guidelines were:
- * ignorance of the need to comply
 - * difficulty in identifying what arrangements are deemed to be consultancy services
 - * a misconception that approval of the responsible Minister is adequate authority
 - * the guidelines were too restrictive.
- 3.10.23 Expenditure on consultancy services by the Transport Authorities exceeded \$8 million in 1985-86. The Transport Authorities, however, do not submit proposals to the Effectiveness Review Committee as, pursuant to the Transport Act 1983, the Authorities have delegated power to approve consultancy engagements up to the value of \$100 000. Consultancies exceeding \$100 000 are referred to the Minister for approval.
- 3.10.24 The Ministry of Transport has acknowledged that there may be inconsistency between the powers available under the Transport Act 1983 and the Effectiveness Review Committee's guidelines. Clarification on this situation has been sought from the Department of the Premier and Cabinet.

Recommendations

- 3.10.25 The review has disclosed substantial non-compliance with established guidelines, absence of approvals and the need for closer monitoring of engagements. Audit recommendations are:

- (1) the Effectiveness Review Committee's guidelines should be adhered to without exception, particularly in that proposed engagements be forwarded initially to the Effectiveness Review Committee in order that expert advice can be provided to the Treasurer when considering approvals;
- (2) the applicability of the guidelines to public bodies needs to be clarified and emphasised, perhaps by publication in the Government Gazette of bodies to which the guidelines apply;
- (3) consideration should be given to applying the guidelines to all public bodies and agencies, irrespective of their level of public funding; and
- (4) to assist with the monitoring of consultants, all departments and public bodies should be required to maintain a register of consultancy engagements.

3.11 DEPARTMENTAL ASSET HOLDINGS

3.11.1 Each year departments collectively spend substantial public moneys acquiring physical assets. These assets are often also referred to as fixed assets and include holdings of land, buildings, plant and machinery, furniture and equipment and motor vehicles.

3.11.2 Physical assets share the common feature of providing ongoing benefits to departments beyond the initial year of purchase.

3.11.3 A review was undertaken in 1985-86 to assess the adequacy of departments' physical asset reporting systems and the extent of compliance with departmental accounting policies and practices, with legislation and with other administrative directives.

3.11.4 The review also encompassed an analysis of the adequacy of information provided in the Treasurer's Statement as to the value of the State's asset purchases and disposals for 1985-86 and the value and extent of asset holdings at 30 June 1986.

3.11.5 Matters arising out of the review are as follows.

Management of Assets

3.11.6 Full responsibility for the management of government assets is often not vested in the departments using those assets. For example, the purchase, maintenance and disposal of property (land and buildings) holdings is often the responsibility of specialist departments such as the Department of Conservation, Forests and Lands and the Department of Property and Services. Similarly, office furniture and equipment dealings are handled on behalf of departments by the Public Works Department.

3.11.7 However, the larger departments such as the Health Department and the Ministry of Education undertake some property functions in conjunction with those specialist departments.

3.11.8 There are no comprehensive guidelines or directions, legislative or otherwise, clearly establishing the lines of authority and responsibility for the recording, management and control of physical asset holdings. For example, the relative responsibilities of departments for the control and management of holdings, where an oversight role is exercised by specialist departments, have not been clearly established.

Recording Systems

3.11.9 As part of a review of government insurances, the Treasurer wrote to departments in October 1984 informing them of the need to maintain asset registers. The establishment and maintenance of asset recording systems (commonly referred to as asset registers) identifying the costs, location and nature of holdings is an essential pre-requisite of effective and efficient asset management.

3.11.10 An overview conducted of departments' asset recording systems provided the following broad conclusions:

- (1) procedure manuals relating to asset recording and control mechanisms had not been adequately developed to assist in the effective management of departmental assets;

- (2) departmental asset registers have not been established for some categories of asset holdings whilst those registers which are in place are in many cases incomplete. Registers varied in format and ranged from loose leaf schedules and individual files to computerised asset recording systems and were generally not established as an integral component of a department's accounting system. Where registers had been established it was apparent that not all significant information relevant to the effective control and management of items had been referenced in the registers, such as the cost or value of assets, the location of assets, relevant serial numbers, estimated service life and the use to which the asset is put; and
- (3) stock counts of assets are not undertaken on a planned and consistent basis.

3.11.11 Specialist departments with responsibility for government land and buildings, i.e. the Department of Property and Services and the Department of Conservation, Forests and Lands, do not presently hold a complete record of all holdings although action is in hand to rectify this situation. Records of property holdings at departments utilising these holdings were also incomplete.

3.11.12 As a consequence of inadequate procedures for the control of assets, departments are unable to exercise adequate custodianship of the State's asset holdings and have insufficient information for effective decision making.

3.11.13 Whilst certain actions are in progress to establish a complete record of the State's assets, the review has indicated that the physical assets of the State are not adequately recorded and that the value and extent of the State's holdings is unknown. This observation raises a range of questions regarding the management of these assets and how management is able to:

- * control and allocate asset utilisation across programs and ensure that property is managed in a way that reflects its value
- * fix responsibility for asset custody, location and use and thereby safeguard assets against waste, loss, unauthorised use and misappropriation
- * determine expected asset maintenance and replacement costs
- * determine costs of providing services
- * identify excess assets that can be sold or reassigned to a more productive use.

Disclosure of Assets

Asset Holdings

3.11.14 Financial assets such as bank and investment balances are reported in the Treasurer's Statement. However, holdings of valuable physical assets are not reported. Similarly, departmental financial statements do not record physical asset holdings.

3.11.15 This diminishes accountability of departments to Parliament for the full extent of resources entrusted to them in meeting program objectives and limits evaluation of options when considering spending proposals.

Asset Disposals

3.11.16 Proceeds of asset disposals recorded in the Treasurer's Statement for 1985-86 were \$71.4 million and comprised the following (set out in Table 3.11A):

TABLE 3.11A

	<u>\$000</u>	<u>\$000</u>
<u>Land Sales</u>		
- Metropolitan Transit Authority	23 050	
- Road Traffic Authority	13 586	
- State Transport Authority	5 076	
- Road Construction Authority	70	
- Crown Lands	12 516	
- Ministry of Education	9 812	
- Other	<u>1 529</u>	65 639
<u>Property Sales</u>		
- Health Department (St. Nicholas Hospital)	4 736	
- Other	<u>1 072</u>	<u>5 808</u>
Total Land And Property Sales		<u>71 447</u>

3.11.17 This information was drawn from a number of receipt classifications in the Treasurer's Statement and does not represent the full amount of sales proceeds. Additional sales proceeds, not readily obtainable, are included in other receipt categories and have not been included in the table.

Payment of Sales Proceeds into the Consolidated Fund

3.11.18 The Constitution Act 1975 and the Audit Act 1958 provide that all public moneys, unless specifically provided otherwise in legislation, be paid into the Consolidated Fund. In addition, the Transport Act 1983 requires that the 4 transport bodies also pay all moneys resulting from the disposal of real or personal property into the Consolidated Fund.

3.11.19 Other provisions contained in the Department of Management and Budget Regulations 1981 and the associated Instructions and Determinations provide additional accounting and approval requirements.

3.11.20 It was found that there was a marked degree of non-compliance by departments with the requirement to pay all sales proceeds into the Consolidated Fund. However, compliance with other requirements was satisfactory.

3.11.21 The process of paying moneys into the Consolidated Fund entails the recording of a cash receipt in the Treasurer's accounts under the appropriate revenue classification. In a number of departments sales proceeds, although banked correctly into the State's accounts, have been accounted for as an offset against expenditure authorisations (appropriations). This is contrary to the provisions of the legislation and has the effect of increasing the expenditure authorisation available to the departments concerned. In practical terms, however, appropriations are provided having regard to the expected net costs of departments' purchases.

Current Developments/Action Taken by Departments

- 3.11.22 Whilst the above observations indicate a number of difficulties in the methods and practices used to record departments' physical asset holdings, audit found that in 1985-86 a number of departments had initiated reviews and anticipated the early establishment of asset registers.
- 3.11.23 As a result of the adoption of recommendations contained in a 1984 consultant's review the responsibility for the acquisition and disposal of the majority of government property has been centralised with the Department of Property and Services. The transfer of responsibility was designed to streamline the management of the State's property holdings.
- 3.11.24 In addition, the LANDATA project, now under the management of the Department of Property and Services, was commenced in 1982 and has a principal objective of providing a computerised information system recording all land holdings within the State.
- 3.11.25 It was noted also that an asset management working party comprising representatives of the Departments of Property and Services, Management and Budget and Premier and Cabinet, has been formed to recommend means of better managing assets of inner budget agencies. A consultant's study, commissioned by the working party, was completed in June 1986 and has recommended a number of strategies for improvements in asset management.
- 3.11.26 In respect of the practice of departments netting sales proceeds against appropriations, the Department of Management and Budget is currently investigating the implications for the State's finances and budgetary processes.
- 3.11.27 Whilst the method of accounting for sales proceeds is clearly established in legislation and must be complied with, it is also apparent that it provides little incentive to managers for the disposal of surplus property and equipment. A system that explicitly takes into account the net proceeds from the sale of surplus holdings, when allocating resources to departments, has potential to improve economy and efficiency in the management of assets.

Recommendations

- 3.11.28 It is recommended that:
- (1) guidelines be developed by the appropriate central agencies to give clear direction for the recording and control of physical assets purchased by departments or assigned for their use. This should include procedures for asset management;
 - (2) consideration be given to reporting of physical assets in both the Treasurer's Statement and departmental financial statements;
 - (3) the Treasurer's Statement include a consolidated statement of proceeds from the sale of assets;
 - (4) the Department of Management and Budget advise departments that the practice of offsetting asset sales proceeds against expenditure appropriations does not comply with legislation; and
 - (5) a system be introduced that explicitly takes into account the net proceeds from the sale of surplus holdings when allocating resources to departments.

3.12 LACK OF CLEAR DISTINCTION BETWEEN OPERATING AND EXPENDITURE

3.12.1 At present the Appropriation Act and the Treasurer's Statement distinguish between recurrent and works and services expenditures. In broad terms this provides for some segregation between operating (recurrent) and capital (works and services) payments.

3.12.2 However, the segregation of the State's payments into an operating and capital classification is not clear due to the inclusion in "recurrent expenditure" of a number of capital transactions and conversely the inclusion in "works and services expenditure" of significant operational expenditure.

3.12.3 These 2 categories of expenditure are not defined in legislation although the Appropriation (1985-86, No. 1) Act 1985 defines "works" as:

"the construction, replacement, renovation, renewal, protection, development or surveying of and maintenance, alterations or improvements to buildings, structures, forests or other properties, the purchase of land, buildings or property and the provision, alteration, etc. of furniture, fittings, plant, machinery, equipment, tools and vehicles and expenditure incidental to those activities".

3.12.4 Broadly, the State's recurrent expenditure comprises the operating expenses of departments, including wage and salary payments, office requisites and grants and subsidies payments. Works and services expenditure, on the other hand, relates to capital payments and includes such items as asset purchases and works construction costs, but also includes some elements of operating expenditure.

3.12.5 In respect of 1985-86 works and services expenditure an audit overview of major payments identified approximately \$254 million of operating expenditure included in the works and services classification, as set out in Table 3.12A.

TABLE 3.12A

<u>Item</u>	<u>\$ million</u>
Interest and Finance Charges	156.8
Repairs and Maintenance	67.9
Other	<u>29.5</u>
	<u>254.2</u>

3.12.6 Whilst these payments have been disclosed in the Treasurer's Statement in accordance with parliamentary authority, it is my view that the clear and consistent classification of departmental expenditures into operating and capital items would significantly improve the use of the Statement and assist in providing more meaningful information on the State's finances.

3.12.7 For example, information may then be provided that permits the matching of revenue receipts and operating payments and, as a result, enable the determination of an operating surplus or deficit for the year. This operating result, separately presented, could then be aggregated with capital transactions in order to provide a more meaningful summary of the State's financial operations for the year.

3.12.8 It is also apparent that similar disclosure of appropriate Trust Fund transactions as an integral component of the State's accounts is also necessary to obtain a true indication of the State's aggregate operating and capital transactions. Reference to this matter has also been made in Section 2.1 of this report.

3.12.9

I am aware that these matters are being considered as part of the Resource Management and Accountability Review and look forward to its conclusions and recommendations.

3.13 PAYMENTS MADE TO DEPARTMENTAL CREDITORS

3.13.1 My predecessor's 1984-85 Report on the Treasurer's Statement included comments on delays by a number of departments in the payment of accounts for goods and services. It was found in the 1984-85 review that in the 6 month period (1 January 1985 to 30 June 1985) 68 per cent of invoices were paid within 8 weeks of the invoice date.

3.13.2 Departments are currently required to pay accounts in accordance with guidelines issued by the Department of Management and Budget in September 1985. These guidelines provide for the meeting of commercial obligations within the trade terms provided for payment or in accordance with agreed contractual terms. Accounts should not be paid before the due date and advantage should be taken of any discounts available.

3.13.3 A review was undertaken in August 1986 to determine the extent to which departments had followed the above guidelines during 1985-86. This involved a review of payments made to creditors in 1985-86 and an analysis of unpaid creditors balances at 30 June 1986.

3.13.4 Similar parameters to the 1984-85 review were established for the purposes of this review and involved extracting information on payments for the period 1 January to 30 June 1986. Due to amalgamation of some former departments, 17 departments as compared to the 20 covered by the previous review were examined.

3.13.5 Payment records of the departments were analysed by means of a computer program which identified the period that had elapsed between the date of invoice and the date of payment. Approximately 290 000 invoices processed by the departments during the 6 month period were assessed.

Payment of Accounts

3.13.6 The results, compared with the previous year's review, are outlined in Table 3.13A:

TABLE 3.13A

<u>Weeks Elapsed</u>	<u>No. of Invoices</u>	<u>% of Total Invoices</u>	<u>1984-85 Amount \$000</u>	<u>No. of Invoices</u>	<u>% of Total Invoices</u>	<u>1985-86 Amount \$000</u>
8 to 12	55 488	18.5	31 170	37 061	12.7	19 388
12 to 16	19 176	6.4	11 741	12 191	4.2	17 691
16 to 20	8 860	3.0	5 215	5 045	1.7	3 483
20 to 30	8 207	2.7	4 934	5 546	1.9	3 467
30 to 40	2 910	1.0	2 100	2 493	.9	1 391
Over 40	NA	NA	NA	3 696	1.3	3 056
	<u>94 641</u>	<u>3.16</u>	<u>55 160</u>	<u>66 032</u>	<u>22.7</u>	<u>48 476</u>

3.13.7 This table provides evidence that there has been a degree of improvement in the time taken by departments to pay creditors. In 1986 approximately 77 per cent of invoices were paid within 8 weeks compared with only 68 per cent in 1984-85.

3.13.8 It is pleasing to note that a review of the accounts payable process in departments has been undertaken by a task force established by the Department of Management and Budget. I look forward to the recommendations being implemented during 1986-87, thus further enhancing timely payment of creditors.

Monitoring of Creditors Balances

3.13.9 The Department of Management and Budget guidelines included requirements for departments to regularly prepare an ageing analysis of creditors balances. This analysis was to be used to identify and monitor unnecessary delays in payment of accounts.

3.13.10 The review indicated that 6 departments did not prepare any form of ageing analysis of creditors balances and therefore were not able to periodically review outstanding creditors as required by the guidelines. Reasons advanced by departments for the non-observance of this requirement were staff shortages and inadequate recording systems to identify unpaid invoices on hand.

3.13.11 An analysis of outstanding creditors balances at 30 June 1986 is given in Table 3.13B. The figures, which are approximate only, are based on either preliminary departmental creditors balances or on figures extracted by audit.

3.13.12 The table indicates that, of the total creditors balance of \$66.9 million at 30 June 1986:

- * \$33.7 million (79.4 per cent) had been outstanding for less than 30 days
- * \$7.7 million (18 per cent) had been outstanding for between 30 and 90 days
- * \$815 472 (2 per cent) had been outstanding for between 90 and 180 days
- * \$262 172 (0.6 per cent) had been outstanding for more than 180 days.

3.13.13 Audit was unable to extract an analysis of creditors balances totalling \$24.5 million relating to the Public Works Department and Ministry for Housing. There was no balance available for the Ministry for the Arts as at 22 August 1986.

3.13.14 Although there has been an encouraging improvement in the reduction in delays in the payment of creditors, departments still need to devote more attention to the management and control of their accounts payable processes, particularly for the monitoring and review of outstanding balances.

TABLE 3.13B

Creditors Balances at 30 June 1986

	<u>Less than</u>		<u>Between</u>		<u>Between</u>		<u>Over</u>		<u>Total</u>
	<u>\$000</u>	<u>%</u>	<u>\$000</u>	<u>days</u>	<u>\$000</u>	<u>days</u>	<u>\$000</u>	<u>%</u>	
Agriculture and Rural Affairs	561	88.6	63	10.0	7	1.1	2	0.3	634
Arts	N/A		N/A		N/A		N/A		N/A
Auditor-General	24	100.0							24
Community Services	735	84.1	119	13.6	17	2.0	2	0.3	874
Conservation, Forests and Lands	2 326	52.8	1 794	40.7	188	4.3	100	2.3	4 407
Consumer Affairs	149	97.2	3	1.9	1	0.9			153
Corrections	527	62.5	303	35.9	7	0.9	6	0.7	843
Education	10 584	78.4	2 737	20.3	142	1.1	42	0.3	13 505
Ethnic Affairs	25	26.8	55	59.6	13	13.6			93
Health	10 169	89.3	1 056	9.3	131	1.2	38	0.3	11 394
Housing	N/A		N/A		N/A		N/A		7 596
Industry, Technology and Resources	671	76.4	166	18.9	23	2.7	18	2.1	878
Labour	710	73.4	107	11.0	119	12.3	33	3.4	968
Law Department	1 077	80.7	190	14.3	64	4.8	3	0.2	1 334
Local Government	41	100.0							41
Management and Budget	2 155	96.5	64	2.9	13	0.6			2 232
Parliament	57	100.0							57
Planning and Environment	345	76.0	103	22.7	5	1.1	1	0.3	454
Police	1 620	74.5	486	22.4	59	2.7	10	0.5	2 175
Premier and Cabinet	102	94.4	4	4.0	1	1.2			107
Property and Services	590	75.2	164	20.9	22	2.8	8	1.0	784
Public Works	N/A		N/A		N/A		N/A		16 867
Sport and Recreation	118	46.3	135	52.8	2	0.9			255
Transport	1 054	90.8	106	9.1	2	0.1			1 162
Water Resources	32	100.0							32
	<u>33 667</u>	<u>80.2</u>	<u>7 654</u>	<u>16.8</u>	<u>815</u>	<u>2.5</u>	<u>264</u>	<u>0.5</u>	<u>66 869</u>

3.14 **TREASURY TRUST FUND**

- 3.14.1 The Audit Act 1958 requires that certain moneys be credited to an account kept in the Department of Management and Budget called "The Trust Fund". In practice this statutory reference has been interpreted as the Treasury Trust Fund which is maintained as a separate account within the Trust Fund designated under the Public Account Act 1958.
- 3.14.2 Originally, the type of moneys which departments were required to pay into the Treasury Trust Fund consisted of the proceeds of unrepresented cheques, surplus cash, unidentified remittances etc. These moneys are retained in the Fund for a period of 6 years and, if remaining unclaimed at the end of that period, are required to be paid into the Consolidated Fund in accordance with the Audit Act 1958.
- 3.14.3 Over the years, the nature of transactions recorded in the Treasury Trust Fund has been expanded in scope to receipts and payments of a general nature.
- 3.14.4 A summary of the operations of the Fund and its balance as at 30 June for the past 3 financial years is shown in the following table:

TABLE 3.14A

	<u>Receipts</u> <u>\$000</u>	<u>Payments</u> <u>\$000</u>	<u>Balance</u> <u>\$000</u>
1983-84	6 669	5 978	3 771
1984-85	14 455	8 803	9 423
1985-86	24 813	24 644	9 592

- 3.14.5 A review of the operations of the Treasury Trust Fund was conducted, concentrating on the major items transacted through the Fund during 1985-86. Matters arising from the review were as follows.

Responsibility of Departments to Maintain Itemised Records

- 3.14.6 In the past it had been the practice of the Department of Management and Budget to maintain itemised records of the amounts paid to the credit of the Treasury Trust Fund so that any refunds or payments from the Fund could be verified. From 1 September 1985, the Department of Management and Budget transferred the maintenance of records to individual departments.
- 3.14.7 Compliance by departments with this directive at 30 June 1986 was as follows:

Maintaining itemised records	14
Not maintaining itemised records	5
No transactions within the Fund since issue of the directive	6
- 3.14.8 Departments which have complied with the requirement maintain a differing range of records including computerised records, manual schedules, typed listings and handwritten listings.

3.14.9 Certain departments have experienced difficulty in maintaining and reconciling itemised records of their transactions in the Treasury Trust Fund as the Department of Management and Budget has initiated transactions which in some instances have not been communicated to the departments.

Increased Use of Treasury Trust Fund

3.14.10 Table 3.14A shows that the use of the Fund for wide purposes has resulted in a substantial increase in the value of transactions and balance of the Fund. Over the past 3 financial years receipts into the Fund increased by 272 per cent and payments by 312 per cent.

3.14.11 The nature of transactions now recorded in the Fund include receipts and payments in relation to:

- * the State Computer Leasing Agreement
- * the operations of the Agent-General's account
- * certain community employment programs
- * short-term job creation projects
- * construction projects, such as the Flinders Walk Project
- * Health Department payroll tax deductions
- * drug rehabilitation program
- * language interpreting services.

3.14.12 The Fund also contains the balances of 2 Commonwealth trust accounts which consist of unspent amounts totalling \$1.5 million mainly in relation to Education States Grants and Commonwealth Curriculum Development Centre Grants for special projects.

3.14.13 The practice adopted by the Government in recent years of limiting the creation of individual trust accounts by using the Treasury Trust Fund is to be commended. It would seem desirable, however, for the Department of Management and Budget to issue enhanced directives as to the scope, extent and control of transactions which are to be processed through the Fund.

Transfer of Moneys to Treasury Trust Fund

3.14.14 Certain moneys recorded as receipts in the Treasury Trust Fund during 1985-86 were transferred from annual appropriations, as shown in Table 3.14B, and from other trust accounts.

3.14.15 Section 26 of the Audit Act 1958 enables the Treasurer to transfer from the Consolidated Fund to an appropriate suspense account within the Trust Fund moneys appropriated by Parliament to meet services which at the end of the financial year remain unpaid. For the purposes of this Act, moneys placed to the credit of the Trust Fund are deemed to have been expended from the Consolidated Fund in the financial year during which the transfer took place.

3.14.16 Audit noted 4 instances where unspent annual allocations totalling \$2 354 146 were transferred to the Treasury Trust Fund prior to the end of the financial year without the approval of the Treasurer and credited within the Fund to departments other than the ones responsible for the administration of the programs under the annual Appropriation Act.

3.14.17 Audit is of the opinion that the above transfers do not conform with the provisions of the Audit Act 1958 and consequently cannot be deemed to be payments for the year in terms of expenditure from the Consolidated Fund.

TABLE 3.14B

<u>Recipient Department</u>	<u>Provider Department</u>	<u>Nature of Payment</u>	<u>Program No.</u>	<u>Amount Transferred to Treasury Trust Fund</u>	<u>Amount Remaining Unspent in Treasury Trust Fund by Recipient Dept at 30.6.86</u>
Ministry for Planning and Environment	Ministry for the Arts	Grants from the Ministry for the Arts in connection with Victoria's 150th Anniversary celebrations.	142	434 146	434 146
"	Ministry for Planning and Environment	Payments in connection with Eastern Suburbs Project.	563	88 713	59 745
Ministry of Transport	"	Payment from Ministry for Planning and Environment in connection with Central Business District - Development Projects.	563	398 000))
"	"	Payment from Ministry for Planning and Environment in connection with Yarra River beautification.	563)	1 145 199
Department of Community Services	Department of Industry, Technology and Resources	Grant to Latrobe Valley Regional Commission for the purchase of a building for a Community Youth Support Group. Department of Community Services is currently arranging the purchase.	473	1 302 000)	220 000
				220 000	220 000

X

- 14.18 The Administrative Arrangements Act 1983 provides for the transfer of functions between departments and allows the department which has become responsible for the transferred function to utilise funds available to the other department under the Appropriation Act. In my opinion, the transfer of appropriations from one department to another by means of the Treasury Trust Fund, as detailed in Table 3.14B, circumvents the requirements of the Act.
- 14.19 On the transfer of the appropriation, the recipient department is in a position, without specific parliamentary sanction, to direct and manage the expenditure on the program transferred. In addition, the unspent balance retained in the Treasury Trust Fund at year end does not lapse and, in future, may not necessarily be utilised on the program originally intended by Parliament.
- 14.20 In addition to the transfers from annual appropriations, some transfers also occurred between certain trust accounts and the Treasury Trust Fund. Examples of these include the transfer of \$800 000 from the Hospitals and Charities Fund Trust Account and \$301 998 from the Employment Initiatives Program Trust Account to the Treasury Trust Fund. Again, the majority of the transferred moneys remained unspent in the Treasury Trust Fund at 30 June 1986 but were recorded as expenditure in the originating trust accounts.

Recommendations

- 14.21 It is recommended that:
- (1) the practice of using the Treasury Trust Fund to transfer appropriations between departments prior to the end of the financial year cease;
 - (2) the Department of Management and Budget implement procedures to ensure proper accountability by departments over transactions within the Treasury Trust Fund;
 - (3) all transfers from annual appropriations into the Fund within the responsible department be approved by the Treasurer;
 - (4) the maintenance by departments of itemised records of their component of the Treasury Trust Fund be reviewed by the Department of Management and Budget to ensure that consistency is achieved; and
 - (5) the current practice of including, for reporting purposes, the balances to the credit of the 2 Commonwealth trust accounts within the balance of the Treasury Trust Fund also be reviewed.

3.15 FINANCIAL ASSISTANCE TO THE BUILDING INDUSTRY

3.15.1 In November 1985 the Government announced that it would consider providing financial assistance to firms in the building industry which had incurred losses or delays as a result of industrial action in support of the Government's position on the Builders Labourers Federation.

3.15.2 Claims for assistance are processed by a group of officers representing the Department of Management and Budget, the Department of Labour and the Public Works Department.

3.15.3 As at 30 June 1986 financial assistance provided to building companies amounted to \$5.7 million and was made up of:

- (1) payments to a building company of \$5.1 million consisting of an interest bearing loan of \$3.6 million and payment in advance of \$1.5 million for work still to be carried out under contract on the Melbourne Remand Centre;
- (2) loans to 4 building companies amounting to \$548 000, such loans being repayable with interest; and
- (3) a non-repayable grant to a building company of \$35 637.

3.15.4 The payments were provided from the following sources:

TABLE 3.15A

	<u>\$ 000</u>
Victorian Economic Development Corporation Consolidated Fund	3 600
Program 726 - Capital Development Fund	1 500
Advance To Treasurer	<u>584</u>
	<u>5 684</u>

3.15.5 The Victorian Economic Development Corporation holds as security over its loan second or third mortgages over the assets of companies associated with the building company or their principals. However, due to some doubt as to whether such securities would adequately cover the outstanding loan, the Corporation recommended that the Treasurer execute a guarantee in favour of the Corporation as to the repayment of the loan. The Treasurer issued the guarantee under the provisions of the Victorian Economic Development Act 1981.

APPENDIX

<u>Particulars</u>	<u>Program No.</u>	<u>Sub-Div</u>	<u>Item</u>	<u>Parlt. Approp</u> \$	<u>Approp. After Variation by Governor in Council</u> \$	<u>Increase (Decrease)</u> \$	
Agriculture and Rural Affairs	122	2	5303	1 200 000	1 700 000	500 000	
		2	5304	1 700 000	418 125	(1 281 875)	
		2	5306	3 483 000	4 764 875	1 281 875	
		2	5308	1 000 000	500 000	(500 000)	
	123	1	1100	27 608 640	27 668 972	60 332	
		1	1150	2 288 640	2 349 780	61 140	
		1	2543	4 300 000	4 021 832	(278 1682)	
		1	2545	2 045 000	1 167 000	122 000	
		1	3820	1 546 370	1 565 576	19 206	
		1	3830	2 332 000	2 343 725	11 725	
		1	3850	2 755 135	2 758 900	3 765	
	125	1	1150	354 490	379 500	25 010	
1		2574	600 000	574 990	(25		
102)					2 085 053	(2 085 053)	
Attorney General	168	1	1150	2 394 700	2 757 700	363 000	
		1	1160	150 000	191 000	41 000	
		1	2626	1 165 000	761 000	(404 000)	
					404 000	(404 000)	
Community Services	183	2	5367	1 071 000	1 000 000	(71 000)	
		2	5368	60 000	131 000	71 000	
					71 000	(71 000)	
Education	283	1	1100	1 300 959 000	1 298 135 800	(2 823 200)	
		1	1150	100 122 000	101 246 000	1 124 000	
		1	2862	128 836 000	130 535 200	1 699 200	
		2	5000	144 313 000	144 790 000	477 000	
		2	5715	5 750 000	5 009 000	(741 000)	
	283	2	5716	5 550 000	5 814 000	264 000	
	285	1	1100	33 872 000	33 709 000	(163 000)	
	285	1	2000	5 755 100	5 708 100	(47 000)	
	285	1	2897	1 200 000	1 410 000	210 000	
						3 774 200	(3 774 200)

<u>Particulars</u>	<u>Program No.</u>	<u>Sub-Div</u>	<u>Item</u>	<u>Parlt. Approp</u> \$	<u>Approp. After Variation by Governor in Council</u> \$	<u>Increase (Decrease)</u> \$
Health	387	1	3119	305 000	360 100	55 100
		1	3149	3 164 000	3 108 900	(55 100)
						<u>55 100</u>
						<u>(55 100)</u>
Industry, Technology and Resources	474	2	5000	312 000	402 000	90 000
		2	5456	1 244 000	1 154 000	(90 000)
	476	2	5000	1 159 000	927 000	(232 000)
		2	5471	850 000	820 000	(30 000)
		2	5474	1 940 000	2 202 000	262 000
						<u>352 000</u>
						<u>(352 000)</u>
Police and Emergency Services	582	1	2000	21 485 000	21 765 000	280 000
		1	3313	195 000	112 000	(83 000)
		1	3314	70 000	62 000	(8 000)
		1	3316	6 250 000	6 061 000	(189 000)
					<u>280 000</u>	
					<u>(280 000)</u>	
Premier	609	1	1100	4 624 000	4 591 898	(32 102)
		1	1150	394 000	426 102	32 102
					<u>32 102</u>	
					<u>(32 102)</u>	
Property and Services	622	1	1150	137 900	214 380	76 480
		1	3264	1 587 000	1 510 520	(76 480)
					<u>76 480</u>	
					<u>(76 480)</u>	
Sport and Recreation	652	1	3394	5 820 500	5 848 500	28 000
		1	3395	850 000	822 000	(28 000)
		1	1100	875 100	865 100	(10 000)
		1	1150	75 640	85 640	10 000
					<u>38 000</u>	
					<u>(38 000)</u>	

<u>Particulars</u>	<u>Program No.</u>	<u>Sub-Div</u>	<u>Item</u>	<u>Parlt. Approp</u> <u>\$</u>	<u>Approp. After Variation by Governor in Council</u> <u>\$</u>	<u>Increase (Decrease)</u> <u>\$</u>
Public Works	682	1	1100	3 169 000	3 382 499	213 499
	682	1	1150	347 200	374 459	27 259
	682	1	3421	16 000 000	15 759 242	(240 758)
	696	1	1100	3 652 000	3 631 370	(20 630)
	696	1	1150	533 000	500 000	(33 000)
	696	1	2000	318 000	394 630	76 630
	696	1	3441	2 585 000	2 400 000	(185 000)
	696	1	3442	2 231 000	2 300 000	69 000
	696	1	3443	246 000	262 000	16 000
	696	1	3445	5 023 000	5 100 000	77 000
						<u>479 388</u>
						<u>(479 388)</u>
Treasurer	723	1	1100	20 694 000	20 509 000	(185 000)
		1	3462	4 250 000	4 435 000	185 000
	726	1	3477	13 600 000	9 960 000	(3 640 000)
		1	3480	30 000	41 279	11 279
		1	3481	5 000	74 070	69 070
		1	3482	500 000	4 140 000	3 640 000
	726	1	3483	11 550 000	11 605 000	55 000
		1	3486	27 000	28 624	1 624
		1	3489	4 800 000	4 733 600	(66 400)
		1	3490	200 000	300 000	100 000
		1	3491	300 000	453 000	153 000
		1	3492	3 000 000	3 085 329	85 329
		1	3499	55 000	62 000	7 000
		1	3505	26 922 000	26 988 400	66 400
		1	3506	112 000	139 500	27 500
		1	3519	6 000 000	4 287 598	(1 712 402)
		1	3550	2 180 000	2 234 300	54 300
		1	3565	8 202 000	9 350 300	1 148 300
						<u>5 603 802</u>
						<u>(5 603 802)</u>
Water Resources	761	1	2000	432 500	415 300	(17 200)
		1	3631	115 000	132 200	17 200
		2	5625	3 800 000	3 851 300	51 300
		2	5626	4 400 000	3 900 000	(500 000)
		2	5627	400 000	932 000	532 200
		2	5630	100 000	16 500	(83 500)
						<u>600 700</u>
						<u>(600 700)</u>

