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Enquiries to: Damian O'Doherty (03) 5564 7656

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Public Finance Bill Project Team
Department of Treasury and Finance
Level 9, 1 Macarthur Street
MEBOURNE VIC 3002

Dear Sir/Madam

RESPONSE – DISCUSSION PAPER PRACTICES & LEGISLATION PUBLIC FINANCE IN VICTORIA

Attached is a detailed response to those issues which have an impact on a small entity within the Victoria State Government regime. The principle message is that in the process of standardisation, reporting should not create any significant further imposition particularly with “a one size fits all” approach. There has to be a balance between providing information, the benefit derived, and the socio economic cost of providing it.

Secondly, the content of annual and interim reports needs to consider current and potential users of these reports. There may be significant groups who would make use of these reports if the content was changed to suit their needs. However, it is inefficient to provide copious information which is not used by anyone or very few.

Should you have any query please contact the undersigned.

Yours sincerely

Damian O'Doherty
General Manager Finance

Enclosures

ABN 94 007 404 851

PO Box 1158 Warrnambool Vic 3280

Tel 1300 926 666 [1300 WANNON]

Fax 03 5564 7650

Email info@wannonwater.com.au

Ausdoc DX 28029

Office Locations

Camperdown 6 McNicol Street

Hamilton 66 Gray Street

Portland 15 Townsend Street

Warrnambool 99 Fairy Street

Wannon Region Water Corporation comment on Department of Treasury and Finance Discussion Paper – Public Finance in Victoria – Practices and Legislation

3.1.1 PLANNING

Should a requirement to develop strategic plans be embedded in legislation?

If so, should strategic plans be at the level of;

- **Whole of government**
- **Departments**
- **Entities?**

What form should these strategic plans take?

The *Water Act* 1989 specifies within Part 13, Division 1, Section 247, Clauses 1 & 2 that:

“(1) An Authority must prepare a business plan and submit it to the Minister –

- (a) on or before the date specified by the Minister; or*
- (b) if no such date is specified, at least two months before it intends to implement the plan or any part of it.*

(2) A business plan must be in the form, and contain the information, that the Minister requires.”

This information is required at entity level, and the content as specified by the Minister is already strategic in nature. The 5 year Business Plan prepared for the purposes of the Essential Services Commission, and the resulting Corporate Plan prepared on an annual basis with a five year forward look, are the mechanisms that describe the Corporation plans to deliver (outcomes), the actions planned to deliver those outcomes, and how the activities are to be financed. The performance of the Corporation is measured by the responsible Ministerial department against the targets set within the Corporate Plan.

Wannon Water finds this a good system as it focuses the Board, Management and employees on the goals for the coming year. This activity as a matter of good management practice, should be performed regardless whether or not required by legislation. However, if some entities, departments, or Government do not this discipline, then it should be made mandatory, given the benefits that are derived, particularly about clarity of direction.

It would appear that the Water Industry has more transparent reporting than some other sections of Government and there is very little that could be added that would improve transparency in a financial sense. Matters that relate to environmental and social aspects could be expanded upon, but that is not the focus of this paper.

Wannon Water is ambivalent that the requirement to develop strategic plans be imbedded in the proposed “Public Finance Bill”. In Wannon Water’s circumstance, the present requirements are sufficient. However, should it be deemed necessary to embed the requirements in legislation for departments, etc and entities are caught up in that requirement, then the requirement should:-

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- *not conflict with the requirements of Part 13 of the Water Act 1989.*
- *not be any more onerous than the requirements of Part 13 of the Water Act 1989.*

If the requirement is to be included within the “Public Finance Bill” Part 13, Division 1, Section 247, and Section 248 of the Water Act 1989 should be reviewed for amendment to refer to the “Public Finance Bill”.

3.1.2 PROVIDING & ALLOCATING RESOURCES

Does the current Victorian parliamentary appropriation system serve any continuing purpose?

Should appropriations authorise;

- **payments from the consolidated fund at the departmental/output level**
- **payments from the consolidated fund against each outcome**
- **drawing down of the consolidated fund to the level deemed necessary to achieve the government’s desired outcomes?**

Should appropriations be annual or multi-year, or a mix of both?

As Wannon Water is not presently involved in the appropriation system, it does not have a position in respect of this item.

3.1.3 ACCOUNTABILITY

Should a requirement to report progress against strategic plans be legislated?

If so, should reporting of progress against strategic plans be at the level of;

- **Whole of government**
- **Departments**
- **Entities?**

What accountability arrangements should be established for performance at input, output and outcome levels?

In terms of reporting, what do you consider to be the appropriate balance between;

- **Financial and non-financial information**
- **Prospective and retrospective information?**

The *Water Act* 1989 specifies within Part 13, Division 2, Section 250, Clause 1 that:

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“An Authority must, in respect of each financial year, prepare an annual report containing –

- (a) a report of its operations during the financial year; and*
- (b) financial statements for the financial year –*

and submit the report to the Minister not later than 4 months after the end of the financial year of the Authority.”

The report of its operations referred to in the *Water Act 1989* is inclusive of a ‘Performance Report’ which includes information comparing actual outcomes against targets documented in the Corporate Plan. The ‘Performance Report’ is prepared at an entity level, and is required to be externally audited by the Auditor-General.

The level of accountability for the ‘Performance Report’ is currently set at the same level as provision of Annual Statement financials, with the following requirements;

- sign off by the Accountable Officer, Chief Financial Officer and Chairman of the Corporation; and
- sign off by the Auditor-General.

It is proposed that the appropriate balance be retained at the level currently in place for presentation of the Annual Statements of Victorian Water entities.

Again Wannon Water is ambivalent. The current reporting requirements are sufficient for a small entity and there is no necessity for reporting at the regional Water Corporation entity level to be further legislated.

However, in the wider context, if there is a demonstrated need to enshrine these requirements in further legislation, then Wannon Water would not object provided:-

- *there is no conflict with the current requirements of Part 13 of the Water Act 1989, and*
- *the requirements are no more onerous than the existing requirements of Part 13 of the Water Act 1989.*

The primary concern is that once a matter is enshrined in legislation, it becomes relatively inflexible and difficult to alter in a timely manner should change be required. Any legislation should focus on principles and the nuts and bolts be a matter for regulation or Ministerial direction if the principles are not being clearly adhered to.

3.2.1 ENTITIES

To which entities should the Public Finance Bill apply?

Should all elements of the Bill apply equally to all entities (for example, financial management, governance, reporting, procurement and compliance frameworks)?

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If a differential framework were to be adopted, what form would it take and what criteria would it take into account (for example, financial position, materiality and public interest)?

The eventual aim of the Public Finance Bill should be comparability of the operations of all entities within the government sector. In addition, all consolidation of financial and non-financial data to meet the reporting requirements of the State would, in theory, be straight forward if all entities were reporting under the same legislation. The Auditor-General, and entity internal auditors, would be applying the same standards across entities in the public sector. This can only be achieved by adopting a position that includes all entities within the application of the Public Finance Bill.

If the Bill is to achieve maximum outcomes, its application should be equal to all entities. A consumer of public service in Victoria should have an equal expectation of financial management or governance at all entities utilising public money.

Wannon Water would support the equal application of all elements of the Public Finance Bill to all entities within the Victorian Public Sector entities. However, it is essential that materiality be taken into account, and that the level of required probity be commensurate with the size of the entity and the level of risk. The concern is that small entities would be burdened with “one size fits all” administrative requirements which may be beyond their existing resources to comply with.

3.2.2 ACCRUAL BASED APPROPRIATIONS AND FLEXIBILITY

What features of the cash-based system need to be retained?

What other technical provisions are no longer required?

Wannon Water does not have a position in respect of this item.

3.2.3 REPORTING

What options for modernising and simplifying reporting should be considered?

The current Annual Statements produced by Wannon Water include the following:

- Report of Operations – narrative of major achievements during the financial period, inclusive of summary tables of outcomes in respect of key financial and operational indicators.
- Financial Statements – prepared in accordance with accounting standards and format complies with Ministerial Directions.

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- Performance Report – details of performance against targets contained within the Corporate Plan (Strategic Plan).

In respect to forward projections, Water Corporations are obliged by Ministerial direction to produce as a component of their annual Corporate Plan, five year projections of their financial accounts (ie Operating Statement, Statement of Position, and Statement of Cash Flows). These projections are utilised by the Department of Sustainability and the Environment and also Treasury for their own forward planning purposes. Given that the projected timeframes are not excessive, and both Departments have an understanding of the business, then these projections are relatively useful.

In addition, Wannon Water for internal purposes prepares ten year projections of these statements and in some circumstances longer, primarily to examine the impacts of future capital works programs, expected tariffs, changes in demand, and funding arrangements. However, as there are many assumptions underpinning these accounts, (which are possibly really only understood within the industry), they have very little value to the wider community.

In respect to **timing** of Annual Statements, Wannon Water is currently required to submit them within four months of the end of the financial year. There has been one recent occasion when, due to parliamentary elections, submission was required within three months. On that occasion, the target was achieved.

Wannon Water is comfortable with a shorter submission period of three months, subject to:-

- *Timely information flow from government of the information required on an annual basis to be included within the report,*
- *All decisions to be made by the Auditor General in terms of presentation/interpretation of accounting standards to be made prior to year end and communicated in a timely manner sufficient to enable the necessary work to be undertaken and the outcomes communicated to the Corporation's Board and not present last minute surprises (as was the case in 2007-08)*
- *Agents of the Auditor-General meeting the shortened time frame for sign off.*

As to **content**, the answer depends on the user. Currently, the annual report as produced has to be all things to all users. Wannon Water serves a community of approximately 79,000 people, and yet the number of website hits (to date) for the 2007-08 annual report is circa 1400. In addition some 300 copies of the annual report are printed and distributed – but how many of these are actually referenced/used is not known. Detailed research of users of annual reports would need to be undertaken to determine what is important to them. The current content of annual reports is primarily determined by the requirements several Act of Parliament and various Ministerial directions.

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From an internal perspective, the annual report is “a line in the sand”, i.e. a statement about the achievements to a point in time, the financial health which has been external verified, and some indication of the future strategies and aspirations.

From the owners perspective, the annual report is a statement about achievement of goals set by the owner. It is also the basis for inclusion in the state accounts. However, Wannon Water’s annual financial reports are immaterial in the Victorian State accounts due to the comparative small size of the operation.

From the customer’s point of view, the annual report is an opportunity to evaluate the quality of service, against the price paid on a collective basis.

As a general comment, this discussion about content should be conducted on a far wider basis than the narrow confines of the producers of annual reports, and be extended to the users.

3.2.4 OTHER PUBLIC FINANCE LEGISLATION

Are the proposals for related legislation appropriate?

Wannon Water is comfortable with the proposed changes as detailed.

In respect of the Public Authorities (Dividends) Act 1983, Wannon Water proposes that the power to levy a dividend shall remain with its Minister with the ability for the Wannon Water Board of Directors to negotiate the final outcome. This proposal is in line with the current dividend calculation methodologies in place.

3.2.5 PROCUREMENT

Should procurement principles be incorporated into the new Public Finance Bill?

What functions associated with procurement need to remain entrusted to a statutory body or be independent of government?

Is the scope and nature of procurement controls sufficient?

The inclusion of procurement principles into the new Public Finance Bill would lead to a greater level of accountability and consistency of application by entities within the public sector.

The procurement principles should be in line with those contained within the VGPB policies and best practice guides, such as those issued by the Auditor-General’s office. All Victorian public sector entities should be required to procure using the principles. The principles should not impact upon the autonomy of the entity in conducting its operations.

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The principles should simply guide the process of procurement to ensure good governance aspects are adhered to.

It is agreed that the scope and nature of the procurement controls proposed are sufficient. There needs to be clear information of what is contained within the scope of each of the principles listed.

Wannon Water agrees with the proposal to include procurement control principles in the Public Finance Bill. The principles should be as listed and should not effect the autonomy of the entity to conduct its day to day operations. The proposal should increase the level of governance in respect of procurement.

Wannon Water also notes the intention to establish a mechanism for complaints in respect of procurement processes. Wannon Water applauds this move as necessary given the current lack of such a mechanism other than the courts.

3.2.6 PRINCIPLES-BASED LEGISLATION

Should the Public Finance Bill be drafted as principles-based legislation?

Wannon Water agrees with the proposal that the Public Finance Bill be drafted as principles-based legislation.