Budget Update

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Presented by John Lenders MP
Treasurer of the State of Victoria

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The Place To Be

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For the information of Honourable Members

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OVERVIEW

Each year the Victorian Government produces a mid-year budget update. The update provides revised estimated financial statements relative to the annual State Budget published the previous May. It provides new data on how projected outcomes and key financial policies are being affected by events and circumstances post budget.

The estimates contained in the *2008-09 Budget Update* take into account the financial impacts of all policy decisions taken by the Victorian Government, as well as Commonwealth Government funding revisions and other information that affect the projected general government sector financial statements as at 24 November 2008 unless stated otherwise. Financial impacts of decisions taken after that date, including at the November meeting of the Council of Australian Governments and in relation to the Transport Plan due to be released by the end of the year, will be reflected in the 2009-10 Budget.

Since the publication of the *2008-09 Budget*, global economic conditions have deteriorated with the escalation of the global financial crisis. As a result of the weakening global conditions, consumer and business confidence have also fallen to below average levels. An improvement in confidence will be an important contributor to the economic recovery. In response, financial regulators and national governments have been taking action to strengthen financial institutions, ease monetary policy settings and stimulate economic growth.

The Victorian economy is now expected to grow by 1.5 per cent in 2008-09 and by 2.0 per cent in 2009-10, with activity returning to long-term growth rate trends by the end of the forward estimates period. The downward revisions to growth since the *2008-09 Budget* reflect the impact of slowing global demand, tightening credit conditions, falling asset prices and lower consumer and business confidence. In addition, poor climatic conditions are expected to continue to weigh on the agricultural sector.

Despite the weakening global economic outlook, the Victorian economy is well positioned to meet the economic and financial challenges. This largely reflects strong population growth and a strong fiscal position.

The *2008-09 Budget Update* confirms that Victoria's financial performance remains sound despite the effects of the weakened global economic conditions. The Government is on track to achieve its target of an operating surplus of at least 1 per cent of revenue each year. The 2008-09 operating surplus (net result from transactions for the general government sector) has been revised downward from $828 million, published in the *2008-09 Budget*, to an estimated $382 million. The average annual operating surplus is forecast to be $463 million over the forward estimates period.

Revisions to key economic variables, reflecting lower growth rates than projected at the time of the *2008-09 Budget*, have resulted in downward revisions to estimates for general purpose Commonwealth grants and state taxation revenue. There have also been some offsetting upward revisions to revenue associated with specific purpose payment Commonwealth grants and state own-source revenue. These two revenue streams have corresponding increases in expenditure.

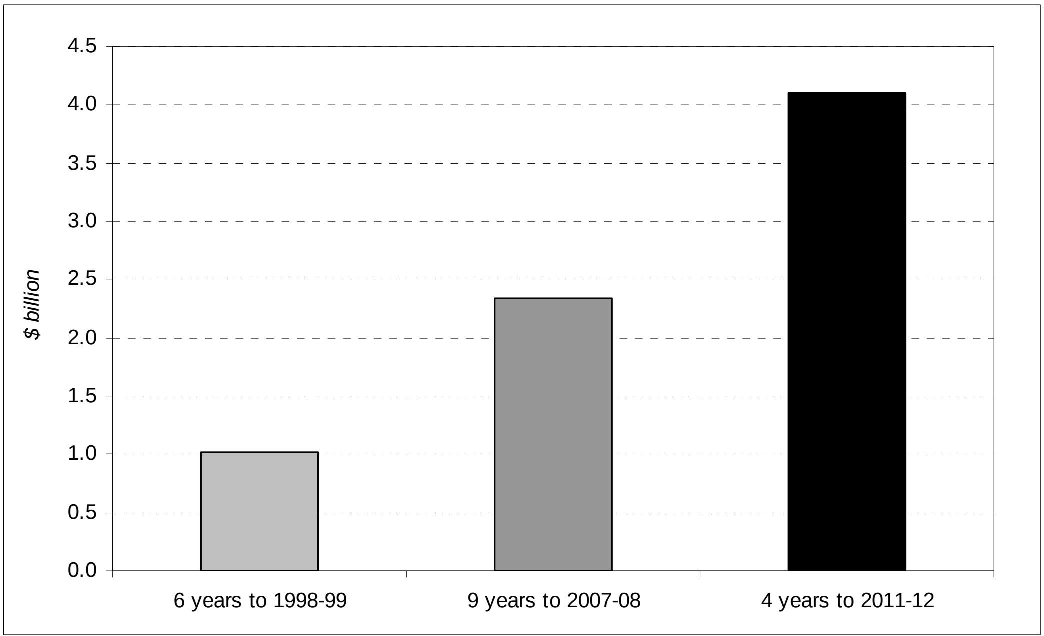
Compared to the estimates published in the *2008-09 Budget*, total revenue is expected to be $160 million higher in 2008-09 and total expenditure is expected to be $606 million higher in 2008-09. Full details of recently announced initiatives are described in Appendix A, *Specific Policy Initiatives Affecting the Budget Position*.

The Government is continuing to invest in productive infrastructure while maintaining prudent debt levels. The Victorian Government's substantial infrastructure program underpins the provision of key services and supports economic growth by expanding the productive capacity of the economy.

Since 1999-2000 the Government has invested over $21 billion in the delivery of world class infrastructure, representing an average investment of over $2.3 billion a year. This substantial infrastructure investment is forecast to continue with a projected net investment of $4.1 billion in 2008-09. Average net infrastructure investment is forecast to be $4.1 billion over the forward estimates period.

Chart 1 illustrates the growth in infrastructure investment in Victoria for the six years to 1998-99, the nine years to 2007-08, and estimates for the four years to 2011-12, with average annual investment rising from $1.0 billion to $4.1 billion.

Chart 1: General government net infrastructure investment [(a)]



Source: Department of Treasury and Finance

Note:
(a) Average annual spend for each period.

Since the *2008-09 Budget* the Government has committed additional funding of $781 million total estimated investment (TEI) to a range of infrastructure projects. In addition to providing critical infrastructure across the State, these projects will also provide important support to the Victorian economy. Significant projects include investments to reduce congestion on regional rail lines and improvements to Victoria's freight and logistics network; revitalisation of Ringwood's town centre and the Southbank Cultural Precinct Redevelopment.

These projects add to the $3.2 billion TEI of projects announced in the *2008-09 Budget*. Full details of recently announced projects are described in Appendix A, *Specific Policy Initiatives Affecting the Budget Position*.

The Government's commitment to sound financial management is further demonstrated by its management of Victoria's net financial liabilities. Victoria has maintained its AAA credit rating by consistently achieving a strong fiscal position and keeping net financial liabilities at prudent levels. Credit agency Standard & Poor's reaffirmed Victoria's AAA credit rating on 27 November 2008.

The forecast growth in net financial liabilities reflects the Government's strategic use of its strong budget position to fund the delivery of strategic projects and infrastructure that will generate long-term benefits for the State. The *2008-09 Budget Update* shows general government net debt is currently projected to increase from 0.8 per cent of gross state product (GSP) at 30 June 2008 to 2.9 per cent of GSP by 30 June 2012, which is below the ratio of net debt in 1999. This is broadly consistent with forecasts published in the *2008-09 Budget*.

The Victorian economy has grown strongly over the past decade in part due to Victoria's willingness to undertake key reforms. Victoria's reforms have also put it in a strong position to weather adverse events such as the current global financial crisis.

Victoria's plan for long-term economic growth is based on investing in critical infrastructure and skills development. This has been highlighted through previous budgets and through the Government's ongoing commitment to the National Reform Agenda.

In order to continue to meet the challenges of an uncertain global economy, economic reforms need to continue. Key areas of reform in Victoria to enable long-term economic growth are:

- continued strategic infrastructure investment;
- increasing people's skills;
- improving business competitiveness and workforce health; and
- meeting the challenges of climate change and water security.

The Victorian Government will continue its sound financial management to ensure that Victoria maintains a strong budget position. The current global economic challenges demonstrate the need to meet the Government's financial targets, deliver services and invest in key infrastructure. The *2008-09 Budget Update* confirms that Victoria's financial performance remains sound despite the effects of the weakened global economic conditions.

CHAPTER 1: FINANCIAL POLICY OBJECTIVES AND STRATEGY

- The Government is committed to sound financial management and has continued to meet its financial targets despite the impacts of the current global financial crisis.
- The 2008-09 operating surplus (net result from transactions) has been revised downward since the *2008-09 Budget* to $382 million. The average annual operating surplus is forecast to be $463 million over the forward estimates period. These forecasts are consistent with the Government's target of 1 per cent of revenue in each year.
- The substantial investment in infrastructure is set to continue with a projected net investment of $4.1 billion in 2008-09. Average annual net infrastructure investment is forecast to be $4.1 billion over the forward estimates period.
- Victorians will benefit from improvements to the provision of services as the Government continues to implement a range of initiatives, including those announced in the Drought Response, the *Victorian Innovation Strategy*, the *Victorian Industry and Manufacturing Strategy* and *Securing Jobs for Your Future – Skills for Victoria*.
- Since 1999, the Government has shown leadership in tax reform through the implementation of a range of initiatives, including being the first state to abolish all inter governmental agreement taxes.
- The Government has continued its substantial investment in critical infrastructure while ensuring net financial liabilities are kept at modest and sustainable levels. Credit agency Standard & Poor's reaffirmed Victoria's AAA credit rating on 27 November 2008.

FINANCIAL STRATEGY, OBJECTIVES AND PRIORITIES

This chapter sets out the Victorian Government's financial policy objectives and strategies as required by the *Financial Management Act 1994* (the Act). The financial policies and objectives are built on the following principles of sound financial management, which are set out in the Act:

- manage financial risks faced by the State prudently, having regard to economic circumstances;
- pursue spending and taxing policies consistent with a reasonable degree of stability and predictability in the level of the tax burden;
- maintain the integrity of the Victorian tax system;
- ensure that government policy decisions have regard to their financial effects on future generations; and
- provide full, accurate and timely disclosure of financial information relating to the activities of the Government and its agencies.

With the broad strategic priority of promoting sustainable growth across the whole state on a sound and stable financial basis, the Government will continue to deliver world class infrastructure to drive economic growth and improve quality, access and equity in key services to all Victorians, while maintaining a sound financial position.

The Government's short-term and long-term financial objectives and targets are summarised in Table 1.1 below. The rationale for, and progress against, each of the five objectives is discussed in the following sections of this chapter.

Table 1.1: 2008-09 Financial objectives and strategies

Objective	*Short-term target*	*Long-term target*
Operating surplus	At least 1 per cent of revenue in each year	Maintain a substantial budget operating surplus that allows for the delivery of the Government's infrastructure objectives
Infrastructure	Implement strategic infrastructure projects	Deliver world-class infrastructure to maximise economic, social and environmental benefits
Service delivery	Implement the 2006 election commitments	Provide improved service delivery to all Victorians
Taxation	Implement reforms	Provide a fair and efficient tax system that is competitive with other states
Net financial liabilities	Maintain a AAA credit rating	Maintain State Government net financial liabilities at prudent levels

Source: Department of Treasury and Finance

OBJECTIVE ONE: OPERATING SURPLUS

The Victorian Government's fiscal management has ensured that the projected operating surpluses are sufficient to fund the delivery of important services and key infrastructure.

In 1999, when the Government came into office, it set an operating surplus (net result from transactions) target of at least $100 million in each year. At the time, this represented just under 0.5 per cent of revenue. For the *2008-09 Budget*, a new target of at least 1 per cent of revenue each year was introduced. The new target was introduced to ensure relevance to the changed fiscal environment, as it will be more reflective of changes to the revenue base. Budget surpluses enable investment in infrastructure, as this is funded from a combination of surplus cash generated from operating activities and prudent levels of additional borrowing.

Since the publication of the *2008-09 Budget*, economic conditions have become more difficult reflecting the impacts of the global financial crisis, in particular:

- slowing global demand;
- tightening credit conditions;
- falling asset prices; and
- lower consumer and business confidence.

The current economic challenges demonstrate the need to continue sound financial management by meeting the Government's financial targets and investing in key infrastructure. The budget surplus provides Victoria with a buffer to the current uncertainty brought about by the global financial crisis.

The Government is forecasting an operating surplus of $382 million in 2008-09 and an annual average of $463 million over the forward estimates period. The projected surpluses remain above the target of 1 per cent of revenue despite downward revisions to the operating surplus. More information on the economic outlook and risks to the budget position are provided in Chapter 2, *Economic Conditions and Outlook*, and Chapter 3, *Budget Position and Outlook*.

Alternative measures of operating performance

From the *2008-09 Budget*, a new accounting standard issued by the Australian Accounting Standards Board in October 2007, AASB 1049 *Whole of Government and General Government Financial Reporting* has been implemented. Under this standard, the financial report for the general government sector must include key fiscal aggregates determined in a manner consistent with the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) manual. Consistent with the Government's commitment to continuous improvement, the implementation of this standard has further enhanced the transparency and accountability of Victoria's resource management.

In addition to the operating surplus, the Government also uses other financial indicators to measure its performance. Table 1.2 presents these alternative measures.

Table 1.2: Alternative budget measures

($ million)

	2008-09 Revised	*2009-10 Estimate*	*2010-11 Estimate*	*2011-12 Estimate*
Net operating balance / Net result from transactions	381.8	412.4	429.7	547.7
Net result	(3 740.7)	323.6	288.4	410.1
Net lending/(borrowing) [(a)]	(1 056.6)	(911.7)	(902.1)	(1 989.5)
Cash surplus / (deficit) [(b)]	(589.1)	(703.0)	(626.2)	(664.1)

Source: Department of Treasury and Finance

Notes:

(a) Net borrowing, or fiscal balance, includes net capital expenditure but excludes depreciation, thereby giving a measure of the State's call on financial markets. Net borrowing also equals net transactions in financial assets less net transactions in liabilities.

(b) Cash surplus/(deficit) equals the net cash flows from operating activities less investments in non-financial assets.

The *net operating balance* is the terminology used by the ABS and is equivalent to the net result from transactions. Both measures exclude the effects of revaluation (holding gains or losses) arising from changes in market prices and other changes in the volume of assets. The net operating balance/net result from transactions is now the core basis for measuring performance against the budget estimates on an accrual basis in all other Australian states and the Commonwealth, and provides comparability with these jurisdictions.

The *net result* is obtained by adding various revaluation gains and losses on assets and liabilities to the net result from transactions. This measure includes actuarial gains and losses on superannuation, the effects of revaluations (holding gains or losses) arising from changes in market prices and other changes in the volume of assets which are outside the control of the Government. In particular, a reduction in the discount rate that is required to be used to value the superannuation liability has resulted in a significant increase in the superannuation liability. Impacts associated with changes to the discount rate do not affect the net result from transactions.

The *net lending/borrowing* is a GFS key fiscal aggregate and is equal to the net operating balance less net acquisitions of non-financial assets. Net borrowing represents, in broad terms, the extent to which the general government sector's net acquisition of physical assets has been funded by incurring liabilities with other sectors of the economy. The Government has a net borrowing position of $1.1 billion in 2008-09, rising to $2.0 billion in 2011-12.

The *cash surplus/deficit* is equal to net cash flows from operating activities, less net cash investment in non-financial assets. The cash position is expected to be a $589 million deficit in 2008-09 with a deficit of an average $664 million over the forward estimates period. These cash deficits reflect the Government's decision to invest in a significant infrastructure program, utilising the strength of the State's balance sheet supported by modest increases in borrowings.

In summary, the net result from transactions and other measures of operating performance show that Victoria's financial performance remains sound despite the more challenging economic and fiscal environment.

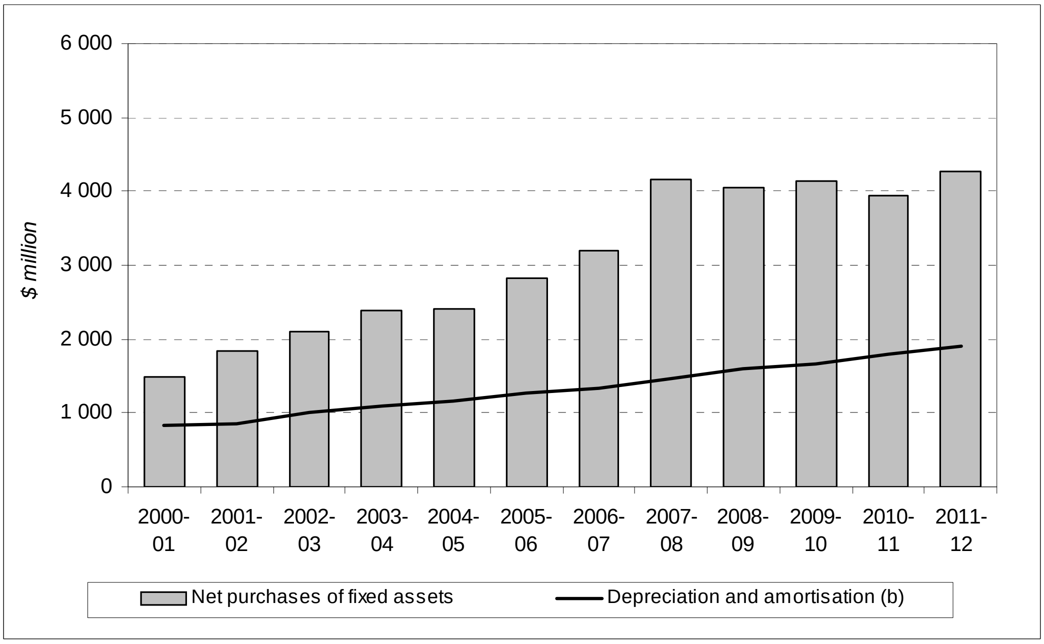
OBJECTIVE TWO: INFRASTRUCTURE

The Government is delivering world-class infrastructure to enhance social, economic and environmental benefits across the State. The Victorian Government's substantial infrastructure program underpins the provision of services and supports economic growth by expanding the productive capacity of the economy. From 1999-2000 to 2007-08, the Government has invested over $21 billion in the delivery of world class infrastructure, representing an average investment of over $2.3 billion a year.

This substantial infrastructure investment is forecast to continue with a projected net investment of $4.1 billion in 2008-09. Planned net infrastructure investment over the forward estimates period is currently expected to average $4.1 billion.

Chart 1.1 shows the growth in the net infrastructure investment by the general government sector since the beginning of the decade, together with projected net infrastructure investment to 2011-12. General government net infrastructure investment is equal to the investment by the general government sector for fixed assets, including investment by public non-financial corporations which is funded by the general government sector, less asset sales.

Chart 1.1: General government sector net infrastructure investment [(a)]



Source: Department of Treasury and Finance

Notes:

(a) *Includes purchases of property, plant and equipment and net contributions to other sectors of government (such as the public non-financial corporation sector) less proceeds from sale of property, plant and equipment. The 2005-06 net investment figure excludes $600 million return of surplus Transport Accident Commission capital.*

(b) *Includes depreciation and amortisation of fixed assets within the general government sector only.*

Over the period 2008-09 to 2011-12, general government net infrastructure investment will exceed estimated depreciation by an average of around $2.4 billion a year.

The Government's fiscal strategy is to maintain surpluses at a level that will enable current and future generations to benefit from further infrastructure investment, while continuing to maintain Victoria's AAA credit rating. The Government's infrastructure investment is funded from surplus cash generated from operating activities and prudent levels of additional borrowing.

Around 60 per cent of the Government's infrastructure program over the four years to 2011-12 will be funded by the cash generated from operating activities. The remainder of the infrastructure program will be funded by using the strength of the balance sheet to support modest levels of borrowing.

The State's strong fiscal position has enabled the Government to significantly boost Victoria's capital assets. The significant infrastructure investment meets the needs of Victoria's growing population and underpins investment activity and confidence.

Since the *2008-09 Budget* was published, the Government has committed additional funding of $781 million total estimated investment (TEI) to a range of infrastructure projects. In addition to providing world class critical infrastructure across the State, these projects will also provide important support to the Victorian and national economy. Significant projects include:

- the procurement of additional regional rolling stock carriages and associated works to reduce congestion on regional rail lines (TEI $215 million);
- increased investment in Victoria's freight and logistics network including the Wodonga Rail Bypass, North-East Rail Revitalisation, Dynon Port Rail Link, Country Rail Freight Network, and improved access to the Port of Melbourne (TEI $124 million);
- the revitalisation of Ringwood's town centre (TEI $38 million); and
- the Southbank Cultural Precinct Redevelopment for the refurbishment of Hamer Hall including improved acoustics, staging systems and new auditorium seating (TEI $129 million).

Full details of recently announced projects are described in Appendix A, *Specific Policy Initiatives Affecting the Budget Position*. New funding for the capital program over the forward estimates is provided from the unallocated capital provision, which is discussed further in Chapter 3, *Budget Position and Outlook.*

OBJECTIVE THREE: SERVICE DELIVERY

The Government remains committed to improving the quality, access and equity of services that are important to all Victorians.

Victoria continues to pursue a program of state-based reform in key areas. To meet future challenges to economic growth, reforms to promote productivity, increase employment, and strategies to manage climate change have been undertaken. A description of the Government’s wider reform agenda can be found in Chapter 4, *Economic Reform Agenda*.

The Victorian Government has now delivered, or commenced the delivery of all its 2006 election output commitments and made substantial progress towards its asset commitments.

Since the *2008-09 Budget* was published, the Government has announced:

- $115 million over two years for the Drought Response. Specific measures include the provision of water rate rebates ($58 million), Municipal Rates Subsidy ($15 million), Catchment Management Authority Drought Employment Program ($10 million) and Regional Infrastructure Development Fund – Small Towns Development Fund ($10 million);
- $300 million over four years for the *Victorian Innovation Strategy*. Specific measures include new grants supporting research in priority areas, including climate change, energy and health ($145 million) and to explore the provision of new waste recovery technology for metropolitan Melbourne ($10 million);
- $316 million over four years provided under *Securing Jobs for Your Future* to create new training places and deliver more flexibility for individuals, employers and training providers including associated infrastructure expenditure;
- $245 million as part of the *Victorian Industry Manufacturing Strategy*, including associated infrastructure initiatives;
- $11 million over three years to enhance the presence of operational police in the City of Melbourne on Friday and Saturday nights; and
- $3.5 million for a new strategy to better manage the State's paediatric and neo-natal intensive care demand in the Royal Children's Hospital.

Full details of recently announced projects are described in Appendix A, *Specific Policy Initiatives Affecting the Budget Position.*

OBJECTIVE FOUR: TAXATION

The Government will continue to implement a range of tax reforms to provide a fair and efficient tax system that is competitive with other states. Victoria's competitiveness and productivity growth depend upon reforms and initiatives that reduce the cost of doing business and support business innovation and competition.

Since 1999, the Government has shown leadership in tax reform through the implementation of a range of initiatives, including being the first state to abolish all inter governmental agreement taxes. Victoria and New South Wales were the first states to harmonise payroll tax legislation and are now working to harmonise WorkCover with payroll tax arrangements, further reducing paperwork for affected businesses. These changes contribute to enhancing Victoria's business competitiveness.

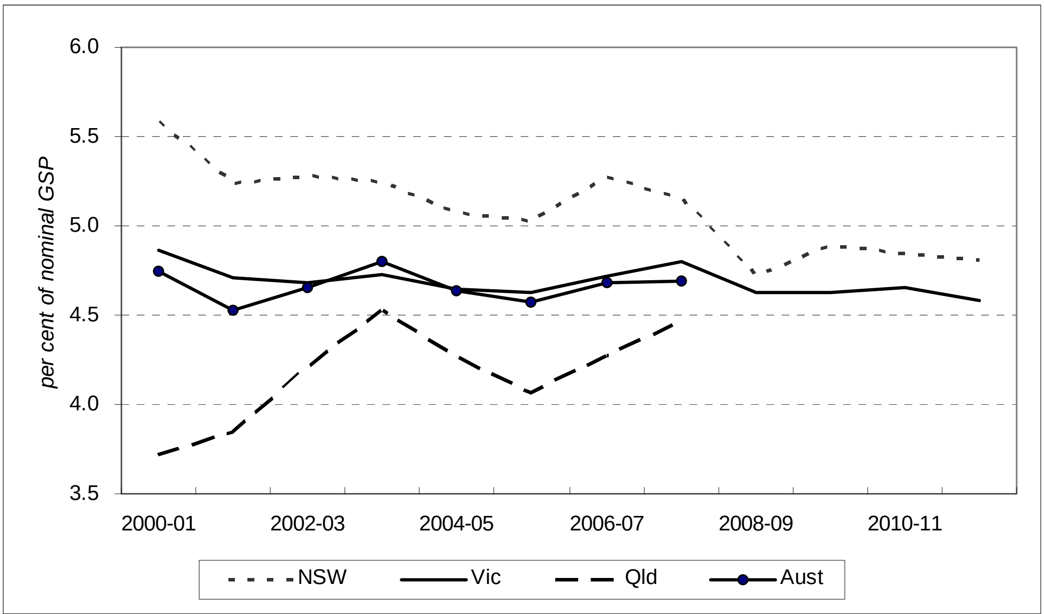
The *2008-09 Budget* provided further tax relief for business, including reductions to payroll tax, land tax and stamp duty on land transfers, as well as the provision of targeted exemptions to land tax and stamp duty on land transfers.

Victoria's tax regime is competitive against the national average despite not receiving its full per capita share of GST revenue and other grants from the Commonwealth. Tax competitiveness is measured as taxation revenue as a share of nominal gross state product (GSP). This measure compares the level of state taxation to economic capacity.

Chart 1.2 provides a comparison of Victoria's taxation competitiveness with New South Wales (NSW), Queensland and the Australian average spanning 2000-01 to 2007-08. Over the period, Victoria maintained a lower tax to GSP ratio than NSW and was competitive with the Australian average.

In previous budget documents, the chart also showed projections of taxation ratios for Queensland and the Australian average (the current chart only shows Victoria and NSW beyond 2007-08). Due to the significant changes in economic conditions and the resultant impacts on the fiscal positions of states since their budgets were released mid-year, the currently available estimates of taxation in the forward years for most jurisdictions are out-of-date. At the time of preparing the *2008-09 Budget Update*, only NSW and the Northern Territory had released updated forward estimates of tax revenue. Consequently, Chart 1.2 provides a comparison of Victoria with only NSW based on the latest tax forecasts.

Chart 1.2: Taxation revenue as a percentage of GSP [(a)]



Sources: Australian Bureau of Statistics, Department of Treasury and Finance and various state financial statements (refer to note below)

Note:

(a) Historical taxation data to 2007-08. Thereafter taxation data are 2008-09 Budget Update (Victoria) and 2008-09 Mini-budget (NSW). At the time of preparing this chart, no other jurisdictions (except the Northern Territory) had published taxation estimates since their mid-year budgets and are therefore excluded from the chart.

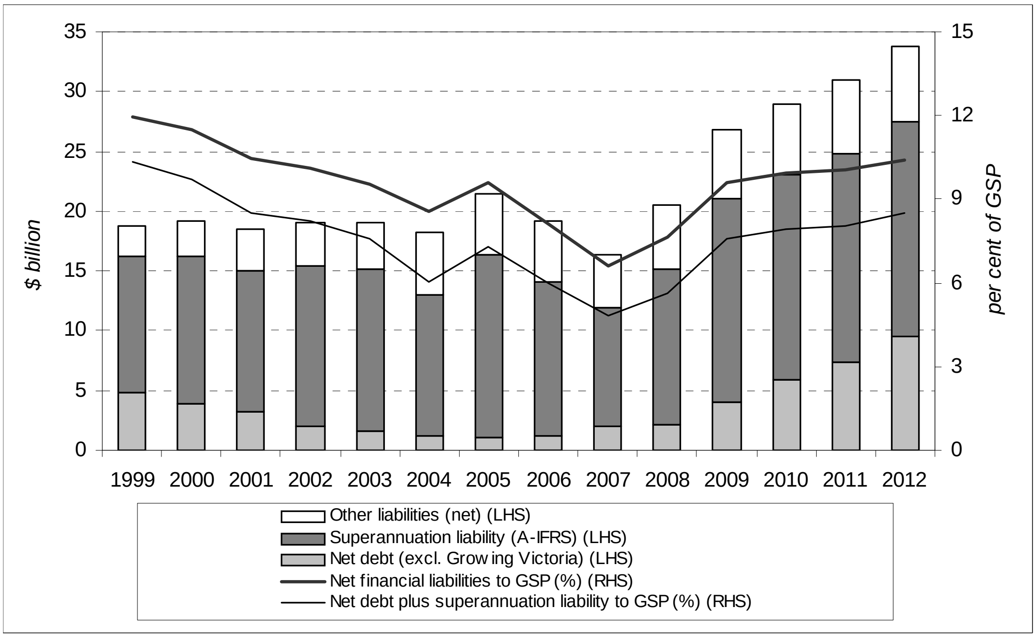
Making interstate comparisons of tax competitiveness is a difficult issue and the above chart does not include the impact of various other considerations. For example, unlike some other states, Victoria has only limited access to royalty revenue. Revenue of this type may enable other states to reduce their taxation revenue and appear more tax competitive. In 2007-08, Western Australia, Queensland and NSW each collected in excess of $500 million in royalty revenue compared with Victoria's $43 million.

OBJECTIVE FIVE: NET FINANCIAL LIABILITIES

Victoria has maintained its AAA credit rating by consistently achieving a strong fiscal position and keeping net financial liabilities, especially net debt, at prudent levels. Victoria's AAA credit rating was reaffirmed by Standard & Poor's on 27 November 2008.

Chart 1.3 shows the relative movements in general government net debt and net financial liabilities.

Chart 1.3: General government net financial liabilities, as at 30 June[(a)(b)(c)]



Source: Department of Treasury and Finance

Notes:
(a) General government net financial liabilities are calculated as total liabilities less financial assets, other than equity in PNFC and PFC.
(b) Net debt is calculated as gross debt less liquid financial assets. In the years applicable, Growing Victoria investments are excluded as an offset to gross debt on the grounds that these investments are earmarked for infrastructure projects and are therefore not available to redeem gross debt.
(c) Superannuation liabilities between 1999 and 2004 are calculated under the previous Australian accounting standards, whereas from 2005 onward AASB 119 has been applied.

General government net financial liabilities are estimated to increase from 7.6 per cent of GSP at 30 June 2008 to 10.4 per cent of GSP by 30 June 2012, reflecting increases in both net debt and the superannuation liability. The projected ratio of net financial liabilities to GSP in 2012 is lower than in 1999.

General government net debt is currently projected to increase from $2.2 billion (or 0.8 per cent of GSP) at 30 June 2008 to $9.6 billion by 30 June 2012, which represents 2.9 per cent of GSP, and is below the equivalent ratio in 1999. Growth in net debt reflects the Government's strategic use of its strong budget position to fund the delivery of future infrastructure projects that will generate long-term benefits to the State.

The increase in the superannuation liability is primarily due to a reduction in the long-term Commonwealth Government bond rate that underpins the discount rate that is required to be used to value the superannuation liability for reporting purposes. The impact of share market volatility on superannuation assets has also contributed to the increased liability by reducing the value of superannuation assets held. These bond rate and share market impacts are beyond the State's control. It is also important to note that changes in the superannuation liability that arise due to movements in the discount rate do not impact on superannuation related funding requirements.

CHAPTER 2: ECONOMIC CONDITIONS AND OUTLOOK

- Since the budget, the global economic outlook has deteriorated. The credit crisis escalated in September, and equity and commodity prices have fallen sharply. Global economic growth is forecast to slow significantly in 2009.
- The Australian economy is forecast to slow over the next two years, as falling commodity prices unwind some of the terms of trade and income gains of the past few years.
- The projections for Victorian growth have consequently been revised down. Gross state product (GSP) is forecast to grow by 1.5 per cent in 2008-09 and by 2.0 per cent in 2009-10. The domestic economy is being affected by slower global demand, tighter credit conditions, falling asset prices and lower consumer and business confidence.
- Employment growth, while continuing, will be at a slower rate, and the unemployment rate is expected to rise from the current historically low levels. Wage growth is forecast to moderate.
- Inflation has been higher than anticipated, but is forecast to ease gradually over the forward estimates period, in response to slowing demand and falling commodity prices.
- The outlook is marked by considerable uncertainty. Downside risks to growth include a deeper and more protracted global slowdown, continued financial market volatility, further deterioration in business and consumer confidence and prolonged dry conditions. Macroeconomic policy settings and the sound fundamentals of the domestic economy provide upside risks to the Victorian economic outlook.

INTERNATIONAL ECONOMIC CONDITIONS AND OUTLOOK

Since the *2008-09 Budget*, the global economic outlook has deteriorated. The global financial crisis, which had been evident since mid-2007, escalated markedly in September on heightened concerns about liquidity and counterparty risk. Credit markets became strained, with historically high credit spreads and limited credit availability. The global financial crisis has resulted in significant and unprecedented policy responses from national governments around the globe, including liquidity injections, capitalising financial institutions and guaranteeing bank deposits and interbank lending. These responses are in addition to monetary policy easing and fiscal stimulus.

The global financial crisis is affecting growth in the world's major economies. The International Monetary Fund (IMF) has been progressively revising down its forecasts for global growth. In November, the IMF forecast world real gross domestic product (GDP) to expand by 3.7 per cent in 2008, with growth slowing to 2.2 per cent in 2009. The 2009 growth forecast is 1.6 percentage points lower than the projection made in April 2008.

Economic conditions are the weakest in the major advanced economies, where growth has already turned negative. In the United States, employment is declining and the unemployment rate has increased to 6.5 per cent. The IMF forecasts US GDP to decline by 0.7 per cent in 2009. GDP is also forecast to decline by 1.3 per cent in the United Kingdom, which is heavily exposed to the financial services sector and is experiencing significantly weaker housing market activity. Euro area GDP is forecast to decline by 0.5 per cent in 2009, with broad-based weakness across the member countries, while Japan is forecast to contract by 0.2 per cent in the same period.

While the emerging economies are expected to continue expanding, growth is nonetheless forecast to slow significantly as global demand for their exports weakens. Also, financial markets in some emerging economies, notably in Eastern Europe and Latin America, have been adversely affected by increased risk aversion. The IMF forecasts growth in China to slow to 8.5 per cent in 2009, which is below the average growth rate of the past decade. In response, the Chinese authorities have announced a 4 trillion yuan (around A$900 billion) fiscal stimulus package aimed largely at infrastructure investment.

The weakening global economic outlook has been reflected in steep falls in global equity markets, which have fallen around 50 per cent from their late-2007 peaks. Commodity markets have also weakened significantly on prospects of lower global demand; oil prices have fallen to around US$50-60 per barrel, down from almost US$150 per barrel in mid-July. Easing commodity prices and heightened risk aversion have weighed on the Australian dollar over the past three months.

AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK

The Australian economy has been expanding for 17 consecutive years. This expansion is forecast to continue, although it will be much slower than in the recent past. The Australian economy will be affected by the slower growth of its major trading partners, weaker commodity prices, financial market volatility and the associated impacts on business and consumer confidence. That said, the Australian economy is well positioned to weather the global economic and financial unrest, given strong population growth, a robust fiscal position, a strong regulatory and prudential system, and a sound banking system. Growth prospects will also be aided by stimulatory monetary and fiscal policies and the depreciation of the Australian dollar will be beneficial for exports.

After strong growth of 3.7 per cent in 2007-08, the Commonwealth Treasury, in its *Mid-Year Economic and Fiscal Outlook*, forecast Australia's GDP growth to slow to 2 per cent in 2008-09, which is 0.75 percentage points lower than the forecast in the Commonwealth *2008-09 Budget*. The IMF is forecasting growth of 1.8 per cent in 2008-09. Falling terms of trade will result in even slower growth in real gross domestic income, unwinding some of the income gains of the past few years. The slower GDP growth will be accompanied by slower employment growth, which is likely to see the unemployment rate rise above 5 per cent in 2009-10.

Even as economic activity shows signs of moderation, inflation and wage growth remain elevated. Consumer price inflation has been higher than anticipated, due to strong growth in housing, transport and finance and insurance costs. However, it is expected that price and wage pressures will ease due to weaker commodity prices and slowing demand, as well as falling capacity and labour utilisation.

Reflecting the weakening economic outlook, the Reserve Bank of Australia (RBA) has started to ease monetary policy settings. The official cash rate has been cut by 200 basis points, to 5.25 per cent as at November, and financial markets expect further cuts in the months ahead. In addition, the Commonwealth Government has announced a major fiscal stimulus package worth $10.4 billion, targeted at consumer spending and dwelling investment. This will be delivered in the remainder of 2008-09, as well as $300 million of grants to local governments to be spent by June 2009.

VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK

The economic projections used in the *2008-09 Budget Update* are set out in Table 2.1. Where different, the projections made in the *2008-09 Budget* are provided in parentheses. The projections assume constant exchange rates, and oil prices consistent with the path implied by oil futures contracts.

Table 2.1: Victorian economic projections[(a)]

(Projections in the 2008–09 Budget, where different, are in parentheses)

	2007-08 Actual	2008-09 Forecast	2009-10 Forecast	2010-11 Forecast	2011-12 Forecast
Real gross state product	3.2	1.50	2.00	2.75	3.00
		(3.00)	(3.00)	(3.00)	
Employment	2.7	0.50	0.75	1.25	1.50
		(1.50)	(1.50)	(1.50)	
Unemployment rate [(b)]	4.5	4.75	5.75	5.75	6.00
			(4.75)	(4.75)	(4.75)
Consumer price index	3.6	4.00	3.00	2.75	2.50
		(3.00)	(2.75)	(2.50)	
Wage price index [(c)]	3.8	4.00	3.75	3.50	3.50
		(3.75)			
Population [(d)]	1.60	1.50	1.50	1.40	1.40
	(1.50)				

Sources: Australian Bureau of Statistics; Department of Treasury and Finance

Notes:

(a) Year-average per cent change on previous year unless otherwise indicated. All economic projections are rounded to the nearest 0.25 percentage point, except population projections which are rounded to the nearest 0.1 percentage point.

(b) Year-average level, per cent.

(c) Total hourly rate excluding bonuses.

(d) June quarter, per cent change on previous June quarter.

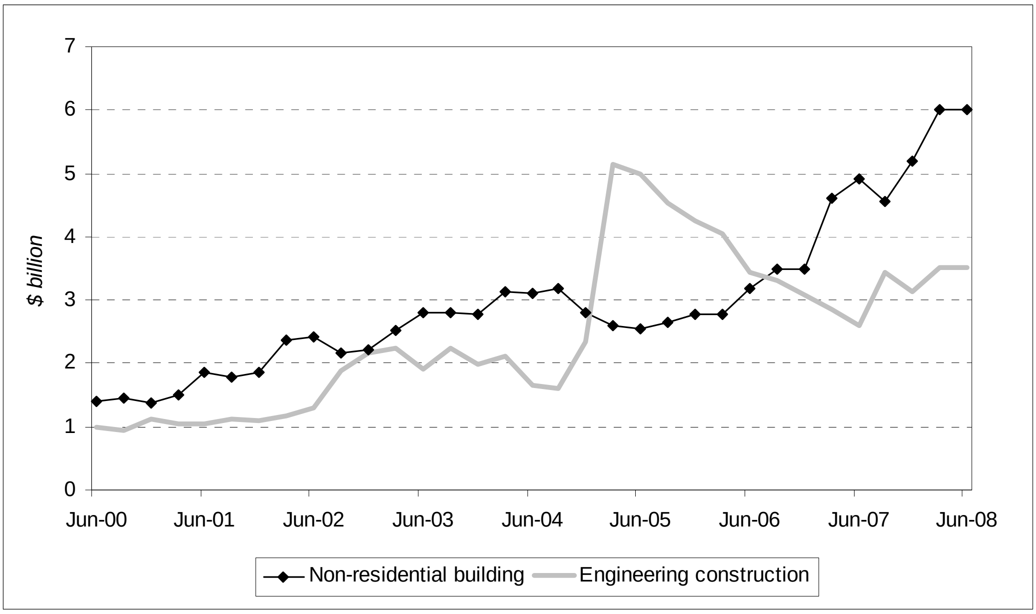
Victorian gross state product (GSP) grew by a solid 3.2 per cent in 2007-08, consistent with the *2008-09 Budget* forecast. Growth is forecast to slow to 1.5 per cent in 2008-09 and 2.0 per cent in 2009-10, with activity returning to trend rates of growth towards the end of the estimates period. The downward revisions to growth reflect the fallout from the global financial crisis: in particular, the impact of slowing global demand, tightening credit conditions, falling asset prices and lower consumer and business confidence. In addition, poor climatic conditions continue to weigh on agricultural output. These factors are expected to affect the key components of domestic demand as well as trade.

Amid falls in household wealth and consumer confidence and prospects for higher unemployment, household consumption growth is expected to be more subdued in 2008-09. Annual growth in retail trade has slowed to 2.7 per cent in trend terms, with further slowing likely in coming months, and sales of new motor vehicles have eased since June. However, consumer incomes and spending will receive a boost from falling interest rates, lower petrol prices and the fiscal stimulus, and will continue to be underpinned by strong population growth. For example, the reduction in mortgage interest rates to date has reduced the required monthly repayment on the average Victorian new housing loan by around $300.

Dwelling investment is similarly expected to be subdued in 2008-09, as evident in falling dwelling approvals and housing finance. This weakness reflects consumer uncertainty as well as some impact of restricted credit availability. Despite this, Victorian dwelling approvals have outperformed national trends, and have accounted for around 30 per cent of all dwelling approvals in Australia. There are indications that demand is improving in response to lower interest rates and the First Home Owners Boost. Prospects for recovery will also be assisted by strong population growth and pent-up demand for housing.

Business investment has been a key driver of growth in recent years, with average annual growth of 9.3 per cent over the past eight years, adding to the productive capacity of the economy. Business investment is expected to hold up in the near term, due to the substantial pipeline of non-residential work yet to be done (Chart 2.1). However, business investment growth is expected to slow significantly in 2009-10, as increased uncertainty, low business confidence and tighter credit conditions have started to undermine investment intentions. There are indications that proposed projects in the non-residential construction sector are being withdrawn due to more restrictive funding conditions. This will be partly offset by public-sector driven engineering construction projects such as the Wonthaggi desalination plant.

Chart 2.1: Victorian non-residential construction work yet to be done



Source: Australian Bureau of Statistics

It is likely that net merchandise exports will detract from growth in 2008-09. Although import growth is expected to slow reflecting slower domestic demand and the lower Australian dollar, merchandise export growth will be hampered by weak external demand and limited agricultural production. Service exports, which grew by 11.3 per cent in 2007-08, are expected to be stronger, aided by strong demand for education services from Asia.

Victoria has experienced one of the driest springs on record, and this is having adverse consequences on the prospects for Victorian agricultural output. Victorian crop production is estimated to be below average in 2008-09, and is likely to be below the production of 2007-08. The dairy sector's milk production is expected to be subdued in 2008-09, although some dairy farmers are benefiting from relatively high milk prices. The depreciation of the Australian dollar should help Victorian farmers to some extent.

Reflecting the slowing domestic and external demand conditions, employment growth is forecast to slow to 0.5 per cent in 2008-09 and 0.75 per cent in 2009-10. Leading indicators of employment, such as surveyed hiring intentions and measures of job advertisements, have fallen in recent months. There has also been some easing in the labour force participation rate, although it remains at a relatively high level. The Victorian unemployment rate has averaged 4.4 per cent in the first four months of 2008-09, but is likely to rise to above 5 per cent in 2009-10.

Consumer price inflation has been higher than anticipated, which has resulted in upward revisions to the inflation forecasts. The upward pressure has largely come from housing, transport and finance and insurance costs. However, there are indications that inflation has peaked and will soon begin to ease, reflecting slowing demand, lower commodity prices and the easing of domestic capacity constraints. This may be partly offset by upward pressure on import prices from the lower Australian dollar. Wage growth is also forecast to moderate over the estimates period, in line with easing labour market and inflationary pressures.

RISKS TO THE OUTLOOK

The outlook is marked by considerable uncertainty. Downside risks to growth include a deeper and more protracted global slowdown, continued financial market volatility, further deterioration in business and consumer confidence and prolonged dry conditions. Macroeconomic policy settings and the sound fundamentals of the domestic economy provide upside risks to the Victorian economic outlook.

Given the extent of the shock from the global financial crisis, there is the risk that the downturn in global economic activity could be deeper and more protracted. The major advanced economies are already in recession, and leading indicators show no signs of stabilisation or improvement as yet. There is also significant uncertainty about the degree of slowing likely in emerging economies. A deeper and more protracted global downturn would further undermine export and manufacturing activity and business confidence.

In recent years Australia has been a key beneficiary of high commodity prices. More recently, resource commodity prices have fallen in line with the slower growth prospects for the world economy, but there is a risk of a larger-than-expected fall in commodity prices and, consequently, the terms of trade. This could adversely affect income and employment growth in Australia, and put further downward pressure on the Australian dollar.

The escalation of the global financial crisis has resulted in restricted credit markets and falling equity prices. Over the forecast period, the projections assume some improvement in credit availability and a stabilisation and gradual recovery in equity prices. If confidence in financial markets is not restored, it could prolong the weakness in consumption and investment, and confidence more generally.

Consumer and business confidence have fallen to below average levels. An improvement in confidence is important to facilitate the economic recovery, whereas further weakening in confidence could amplify the economic downturn.

Victoria has experienced drought conditions for a number of years, reducing agricultural output. These risks, possibly associated with the impacts of climate change on rainfall and average temperatures, are ongoing.

On the upside, there is a risk that the recovery in economic activity, domestically and abroad, could be much faster than expected. Governments, including in Australia, have announced major fiscal stimulus packages, and there are prospects for further stimulus packages. Actions taken in Australia and overseas to shore-up the banking sector, such as guarantees of deposits and wholesale lending, could facilitate a speedier improvement in credit market conditions. Monetary policy has been eased significantly, and has the potential to boost demand by more than is anticipated.

More generally, the fundamentals of the Victorian and Australian economies are sound, which could mitigate against a deep and protracted downturn in the domestic economy. Australian governments are generally in a strong fiscal position, and Australia has a well-capitalised banking sector. The population is growing strongly, and there is little evidence of a capital overhang; indeed, there is a need to continue expanding the economy's capital stock, especially in the areas of housing and public infrastructure.

CHAPTER 3: BUDGET POSITION AND OUTLOOK

General government sector

- The revised 2008-09 operating surplus (net result from transactions) for the general government sector is $382 million, a decrease of $446 million compared to the *2008-09 Budget* estimate of $828 million.
- The downward revision to the operating surplus reflects a significant reduction in state taxation and GST revenue (due to slowing economic activity). This is offset by increases in Commonwealth specific purpose payment grants and state third party revenue, which also have corresponding increases in expenditure.
- The net result from transactions is expected to average $463 million a year over the forward estimates period, from 2009-10 to 2011-12.
- The Government forecast operating surplus is at least 1 per cent of revenue in each year, consistent with the Government's commitment to sound financial management.
- Substantial net infrastructure investment is forecast to continue and is projected to average $4.1 billion a year over the forward estimates period. Over 60 per cent of this investment will be funded by cash surpluses from operating activities with the balance funded by borrowings.
- Net debt will remain at historically low levels and is projected to be 2.9 per cent of GSP by 30 June 2012.

Non-financial public sector

- Net infrastructure investment is projected to average $7.5 billion a year over the forward estimates period.
- Net debt and net financial liabilities are projected to increase from 1.5 per cent of GSP and 8.7 per cent of GSP respectively at 30 June 2008 to 7.0 per cent of GSP and 14.6 per cent of GSP respectively by 30 June 2012.
- The State Government will continue to meet its objective of maintaining net financial liabilities at prudent levels, with credit ratings agency Standard & Poor's reaffirming Victoria's AAA credit rating on 27 November 2008.

This chapter provides an overview of the revised budget position for the period 2008-09 to 2011-12 for the general government sector and a reconciliation and explanation of key movements affecting the net result from transactions since the publication of the *2008-09 Budget*.

The revised budget position for the non-financial public sector is also presented, which provides the basis for a discussion of the broader public sector.

GENERAL GOVERNMENT SECTOR

The Victorian Government considers the net result from transactions to be the appropriate measure of financial management that can be directly attributed to government policy. This measure excludes the effects of revaluation (holding gains or losses) arising from changes in market prices and other changes in the volume of assets which are outside the control of the government. This is particularly important in times of significant market volatility and economic uncertainty.

The net result from transactions, which is identical to the net operating balance, for the general government sector is now also the basis for measuring performance against the budget estimates on an accrual basis in all other Australian states and the Commonwealth, and provides comparability with these jurisdictions.

The revised budget and forward estimates are based on the economic projections outlined in Chapter 2, *Economic Conditions and Outlook*, and reflect the accounting policies and assumptions documented in Chapter 5, *Estimated Financial Statements and Notes*. The estimates take into account the financial impacts of policy decisions taken by the Victorian Government, as well as Commonwealth Government funding revisions and other information that affect the projected general government sector financial statements as at 24 November 2008 unless stated otherwise. Specific policy decisions that have been taken since the May 2008 Budget and which affect the budget position are summarised in Appendix A, *Specific Policy Initiatives Affecting Budget Position*.

The 2008-09 and forward estimates period, 2009-10 to 2011-12, represent planning projections based on unchanged policy and a set of forecast economic and financial assumptions. The actual outcomes will differ from these projections for many reasons, including any materialisation of risks, such as the impact of changed economic conditions, described in Chapter 2, *Economic Conditions and Outlook*, and unforeseen events. Appendix C, *Sensitivity Analysis Table*, quantifies the impact on revenue, expenses and the net result from transactions associated with variations to forecasts of selected economic and financial variables.

The financial estimates (as detailed in Chapter 5, *Estimated Financial Statements and Notes*) used in this chapter are presented on the basis of the relevant Australian Accounting Standards.

Forward Estimates Outlook 2008-09 to 2011-12

Table 3.1 sets out the projected aggregate outlook over the budget and forward estimates period for the general government sector. A more detailed operating statement is provided in Chapter 5, *Estimated Financial Statements and Notes*.

This section provides an explanation of the major revisions to the forward estimates outlook.

Table 3.1: Summary operating statement for the period 2008-09 to 2011-12 for the general government sector[(a)]

($ million)

	2008-09 Revised	*2009-10 Estimate*	*2010-11 Estimate*	*2011-12 Estimate*
Revenue				
Taxation	12 880.1	13 507.4	14 324.2	14 832.7
Dividends, TER and interest [(b)]	937.1	1 030.7	917.7	1 182.9
Sales of goods and services	4 789.3	5 042.5	5 041.7	5 121.7
Grants	17 717.9	18 336.4	19 136.2	20 045.7
Other current revenue	1 645.8	1 523.6	1 550.3	1 504.5
Total revenue	**37 970.3**	**39 440.7**	**40 969.9**	**42 687.6**
% change		3.9%	3.9%	4.2%
Expenses				
Employee expenses	14 257.9	15 309.5	16 270.8	17 144.9
Superannuation	1 976.0	2 078.5	2 152.4	2 222.6
Depreciation	1 596.2	1 675.0	1 787.3	1 902.0
Interest Expense	565.4	639.8	755.8	832.4
Other expenses	12 398.1	12 726.4	13 083.6	13 545.9
Grants and other transfers	6 795.0	6 599.1	6 490.4	6 492.1
Total expenses	**37 588.5**	**39 028.3**	**40 540.3**	**42 139.9**
% change		3.8%	3.9%	3.9%
Net result from transactions	**381.8**	**412.4**	**429.7**	**547.7**
Total other economic flows included in net result	(4 122.5)	(88.8)	(141.3)	(137.6)
Total other economic flows	**(4 122.5)**	**(88.8)**	**(141.3)**	**(137.6)**
Net result	**(3 740.7)**	**323.6**	**288.4**	**410.1**

Source: Department of Treasury and Finance

Notes:

(a) This is an abbreviated operating statement. The full statement is shown in Chapter 5, Estimated Financial Statements and Notes.

(b) Comprises dividends, income tax and rate equivalent revenue and interest.

Revenue

Total revenue in 2008-09 is projected to be $37 970 million. Growth in total revenue over the forward estimates period 2009-10 to 2011-12 is projected to average $1 572 million, or 4.0 per cent, a year.

Taxation income is projected to be $12 880 million in 2008-09 and is expected to grow by an average of $651 million (or 4.8 per cent) a year over the forward estimates period. The projected growth in taxation revenue over the outlook period reflects the expected return to normal levels of economic growth after 2009-10 (see Chapter 2, *Economic Conditions and Outlook)*.

Goods and services tax (GST) revenue is expected to increase by an average of 5.9 per cent over the forward estimates period which reflects the Commonwealth's estimate of GST revenue (as taken from the *Mid-year Economic and Fiscal Outlook 2008-09* (MYEFO)) and an expected improvement in Victoria's relativities. This increase is expected to occur despite the downward revision to GST grants reported in MYEFO.

Dividends, income tax and rate equivalent income and interest revenue is projected to be $937 million in 2008-09, which is $135 million lower than the *2008-09 Budget* estimate. This is largely due to the impact of the decline in the financial market on the performance of the State's public financial corporations and therefore the income tax and rate equivalent levied on their forecast profits.

Expenses

Total expenses are projected to be $37 589 million in 2008-09. Consistent with the forecast growth in total revenue over the forward estimates period, total expenses are projected to increase by an average of $1 517 million, or 3.9 per cent, a year from 2009-10 to 2011-12.

The increased expenditure is related to the on-passing of additional Commonwealth grants received, meeting increased demand for services, new output policy decisions, and the expenditure of own-source revenue. This is reflected in:

- growth in employee expenses (including superannuation) of $1 045 million, or 6.1 per cent, a year on average over the forward estimates period;
- growth in other expenses of $383 million, or 3.0 per cent, a year on average over the forward estimates period; and
- increased grants and other transfer payments compared to the *2008-09 Budget*. Grants expenditure is projected to decrease slightly by an average $101 million, or 1.5 per cent a year, over the forward estimates period due to the timing of additional Commonwealth grants being received, and associated increase in expenditure, during the earlier parts of the forward estimates period.

Other Economic Flows

Differences between the net result from transactions and the net result are due to other economic flows. This includes actuarial adjustments arising from movements in market prices, gains and losses on the disposal of physical assets, and provisions for doubtful debts.

Other economic flows of $4.1 billion in 2008-09 were mainly due to actuarial losses on superannuation arising due to experience differing from the actuarial assumptions that are used to determine the superannuation expense from transactions. The significant actuarial loss on superannuation in 2008-09 is primarily due to a reduction in the long-term Commonwealth Government bond rate that underpins the discount rate that is required to be used to value the superannuation liability for reporting purposes. Between 30 June 2008 and 30 September 2008 (the basis for the *2008-09 Budget Update)* the discount rate decreased by over 1 per cent. This lower discount rate increased the reported superannuation liability and contributed approximately $3.1 billion to the actuarial loss on superannuation in 2008-09.

Lower than expected investment returns on superannuation assets have also contributed to the actuarial loss on superannuation. For the September quarter, the actual investment return on superannuation assets was approximately -2.8 per cent compared to an expected return of 2 per cent. This under-performance of superannuation assets increased the superannuation liability and contributed approximately $750 million to the actuarial loss on superannuation.

It is important to note that the majority of the increase in the reported superannuation liability is due to a reduction in the discount rate and that this source of increase does not flow through to funding requirements.

Reconciliation of forward estimates to previously published estimates

Table 3.2 compares the revised outlook for the net result from transactions for the period 2008-09 to 2011-12 to the estimates published in the *2008-09 Budget* in May 2008.

Table 3.2: Reconciliation of estimates to the *2008-09 Budget*

($ million)

	2008-09 Revised	*2009-10 Estimate*	*2010-11 Estimate*	*2011-12 Estimate*
Net result from transactions: 2008-09 Budget [a]	827.5	851.1	906.0	962.6
Plus: Variations in revenue since 2008-09 Budget				
Revenue policy decision variations	1.0	224.5	100.7	48.8
Economic/demographic variations				
Taxation	(600.7)	(391.0)	(253.3)	(213.3)
Investment income [b]	(171.9)	(133.9)	(321.4)	(57.0)
Total economic/demographic variations	(772.6)	(525.0)	(574.8)	(270.3)
Commonwealth grant variations				
General purpose grants	(342.3)	(428.3)	(436.4)	(480.0)
Specific purpose payment grants	417.4	244.1	107.4	84.3
Total Commonwealth grant variations	75.2	(184.2)	(329.0)	(395.7)
Increase in own-source revenue	504.2	455.5	480.3	525.7
Administrative variations	352.5	149.1	176.0	132.6
Total variation in revenue since 2008-09 Budget	**160.3**	**119.9**	**(146.8)**	**41.2**
Less: Variations in expenses since 2008-09 Budget				
Policy decision variations [c]	14.1	64.4	56.2	17.8
Commonwealth variations	265.4	223.8	97.8	79.1
Variations due to changes in own-source revenue	384.8	291.8	257.7	300.2
Administrative variations				
Superannuation variations	85.8	141.6	146.1	183.8
Other administrative variations	(144.0)	(162.9)	(228.2)	(124.8)
Total administrative variations	(**58.2)**	(**21.3)**	(82.1)	59.0
Total variation in expenses since 2008-09	**606.1**	**558.7**	**329.5**	**456.2**
Revised net result from transactions	**381.8**	**412.4**	**429.7**	**547.7**

Source: Department of Treasury and Finance

Notes:
(a) *2008-09 Budget net result from transactions as published in the May 2008 Budget.*
(b) *Investment income includes dividends, income tax and rate equivalent revenue and interest.*
(c) *Policy decisions are net of funding from contingencies and other efficiencies.*

Variations to Revenue

Compared to the estimates published in the *2008-09 Budget*, total revenue is expected to be $160 million higher in 2008-09, $120 million higher in 2009-10, $147 million lower in 2010-11, and $41 million higher in 2011-12.

As explained in Chapter 2, *Economic Conditions and Outlook*, gross state product (GSP) and employment growth forecasts have been revised downwards compared to the *2008-09 Budget* with a corresponding impact on the revised estimates for general purpose Commonwealth grants and taxation revenue. This is offset by upward revisions to specific purpose payment (SPP) Commonwealth grants, own-source revenue, revenue policy changes and administrative variations as explained below.

Revenue policy decisions have resulted in increased revenue of $94 million a year on average from 2008-09 to 2011-12. Sources of revenue include:

- the implementation of the November 2005 decision on infrastructure funding for growth areas. The Growth Areas Infrastructure Contribution will partly fund the provision of infrastructure in growth areas and enable a more timely provision of facilities and services; and
- increasing the number of both conventional and wheelchair accessible taxi licences. The increase in taxi licences addresses the undersupply of taxis in greater Melbourne and is also due, in part, to the Government's response to the Essential Services Commission's *Taxi Fare Review 2007-08*.

Further details on these initiatives are provided in Appendix A, *Specific Policy Initiatives Affecting Budget Position*.

A faster than expected correction in the property market and slower than expected economic growth have resulted in taxation estimates being revised. The decline in estimated taxation revenue attributable to economic/demographic variations is $601 million in 2008-09 and an average of $286 million a year over the forward estimates period, including:

- income from taxes on financial and capital transactions, largely comprising stamp duty on land transfers, has been revised downwards by $706 million in 2008-09 and $224 million a year on average for the forward estimates period. The *2008-09 Budget* estimates were predicated on a gradual re-alignment of the property market with underlying economic fundamentals. This realignment has occurred at a much more rapid pace than expected, and is being reinforced by the current economic uncertainty; and
- declines in expected total motor vehicle, insurance and gambling tax revenue of $70 million in 2008-09 and $146 million a year on average for the forward estimates period principally reflecting the projected slowdown in economic activity.

These decreases have been partly offset by upwards revisions, resulting from economic/demographic variations, to:

- income from taxes on immovable property of $129 million in 2008-09 and $75 million a year on average over the forward estimates period due to an increase in land tax revenue in 2008-09 because of higher than expected revaluations of site values as at 1 January 2008. This is partly offset from 2010-11 onwards by lower projected revaluations at 1 January 2010 consistent with the correction to the property market; and
- payroll tax of $50 million in 2008-09 reflecting stronger than expected collections for the year-to-date. Payroll tax revenue for the forward estimates period has also been revised upwards (at an average of $10 million a year) but by a lower amount reflecting lower than expected employment growth as the impact of the current global financial crisis filters through the economy.

Investment income (comprising dividend, income tax and rate equivalent income and interest) has been revised downwards by an average of $171 million from 2008-09 to 2011-12. This largely reflects the impact of the decline in the financial market on the performance of the State's public financial corporations and therefore the income tax and rate equivalent levied on their forecast profits.

Total Commonwealth grants have been revised upwards compared to the *2008-09 Budget* by $75 million in 2008-09 and downwards by an average of $303 million from 2009-10 to 2011-12. This is mainly due to:

- a downwards revision for GST grants of $342 million in 2008-09 and by an average of $448 million a year from 2009-10 to 2011-12. These arise from a decrease in the size of the GST pool. The downward revisions in expected GST revenue are taken from the Commonwealth's MYEFO. In particular, national household consumption has been forecast by the Commonwealth to grow at 2 per cent in 2008-09, which is lower than the *2008-09 Budget* forecast of 2.75 per cent; and
- new and additional specific purpose Commonwealth grant funding of $417 million in 2008-09 and an average $145 million a year over the forward estimates period. Grants were provided for first home owners ($216 million in 2008-09 and $135 million in 2009-10), health and disability services, capital funding for the Commonwealth's Elective Surgery Wait List Reduction Plan, TAFE funding ($33 million a year on average), and expected income from the State's claim to the Commonwealth for reimbursement of $51 million in 2008-09 for natural disaster relief funding provided by the State in 2006-07. There is an associated increase in expenditure for the on-passing of these additional grants for eligible home owners, specialist disability, health and education services.

Own-source revenue for 2008-09 has been revised upwards by $504 million and by an average of $487 million over the forward estimates period as a result of expected increased third party revenue in the hospital, TAFE and schools sectors. This additional revenue is offset by an increase in expenditure incurred in the delivery of health and education services, and will also be used in part to fund asset related expenditure.

Administrative variations to revenue estimates have been revised upwards by $353 million in 2008-09 and $153 million higher on average over the forward estimates period. These revisions mainly include the impact of the road safety measures to be introduced in 2009-10 to help reduce the Victorian road toll and improve safety on our roads, and other administrative variations.

Variations to Expenses

Compared to the *2008-09 Budget*, total expenses are expected to be $606 million higher in 2008-09 and $448 million higher on average a year over the forward estimates period.

New output policy decisions taken since the *2008-09 Budget* account for additional expenses of $14 million in 2008-09 and $46 million a year on average over the forward estimates period. Funding for new output policy decisions include initiatives announced as part of the Drought Response, *Victorian Innovation Strategy*, *Victorian Industry and Manufacturing Strategy*, and *Securing Jobs for Your Future – Skills for Victoria*.

Details of specific policy decisions since the *2008-09 Budget* are summarised in Appendix A, *Specific Policy Initiatives Affecting Budget Position*.

Higher Commonwealth grants for on-passing are projected to increase expenditure by $265 million in 2008-09, due to increased grant payments for eligible home owners, specialist disability, health and education services as explained above in the discussion of revenue to Commonwealth grants revenue. The increased expenditure is expected to reduce over the forward estimates period, to $79 million by 2011-12, in line with the grant revenue received.

Revisions associated with own-source revenue generating activities are projected to increase expenditure by $385 million in 2008-09 and $283 million a year on average over the forward estimates period. This is due to additional services being provided in health services, TAFE institutes and schools as well as additional maintenance expenditure for schools. This additional expense is funded through increases in own-source revenue.

Total administrative variations have been revised downwards by $58 million in 2008-09, $21 million in 2009-10, $82 million in 2010-11, and upwards by $59 million in 2011-12. These revisions include the impacts of:

- an increase in the superannuation expense due to the flow on effect of the decline in investment markets since 31 March 2008, the basis of the *2008-09 Budget* estimates. The decline in investment markets has decreased the value of superannuation assets invested thereby decreasing the expected return on assets. Given that the expected return on assets offsets other components of the superannuation expense, a reduction in this item increases the superannuation expense; offset by

- an increased estimate of departments' underspending in 2008-09; and
- a reduction in expenditure contingencies for additional services across the forward estimates in line with the reduced GST revenue forecast to be received from the Commonwealth Government.

Fiscal Risks

Economic risks are outlined in Chapter 2, *Economic Conditions and Outlook*. In addition to these risks, the government's projected financial performance may also be affected by the major revenue and/or expenditure risks outlined below.

Revenue Risks

Commonwealth grants

Commonwealth grants are a major source of revenue for the Victorian Government with estimated grants income of approximately $18 billion in 2008-09. Commonwealth grants include general purpose grants (GST grants) and specific purpose payments (SPPs).

The level of SPP funding received by Victoria is determined by the policies of the Commonwealth Government and new funding agreements are to be agreed by the Council of Australian Governments (COAG).

The level of GST grants is affected by the general level of activity in the Australian economy and the GST revenue sharing relativities calculated by the Commonwealth Grants Commission (CGC).

The CGC provides updates of its GST revenue sharing relativities in February each year. These are then subject to the approval of the Commonwealth Treasurer at the annual Ministerial Council for Commonwealth State Financial Relations. The CGC is currently undertaking a methodology review of state revenue sharing relativities to simplify its methodology and to develop a continuous programme of improvement of its assessments. The review is scheduled to be completed by 26 February 2010.

The GST grants estimates in the *2008-09 Budget Update* are based on data published in the Commonwealth's 2008-09 MYEFO. Any changes to economic conditions in the budget and forward estimates will have a direct impact on the amount of GST revenue to be distributed among the states.

Taxation revenue

The State's tax revenues are, for the most part, forecast on an assumed or estimated relationship between taxation revenue and projected economic variables. As a result, there are two main sources of risk to the taxation estimates. Firstly, changes in economic conditions from those projected will affect taxation revenue. For example, higher than expected economic activity or inflation will tend to lead to higher taxation revenue. This is the risk that is quantified in Appendix C, *Sensitivity Analysis Table*.

Secondly there is the risk of changes in the relationship between the economic variables and taxation revenue (such as between consumer spending and taxes on gambling and motor vehicles, or between employment and payroll taxes).

Moreover, some State taxes, such as stamp duty on land transfer, are sourced from tax bases which are subject to volatility, and revenue from these sources may be subject to substantial annual variation.

Expenditure Risks

General expenditure risks, such as unforeseen changes in the size and structure of the Victorian population, can be broadly classified into those affecting all government departments and those that are department specific.

The main general expenditure risk is associated with material changes to key economic parameters such as CPI. Under the departmental funding model, variations to CPI forecast growth rates applied to output prices for the coming budget and forward estimate years are to be determined in the context of the next annual budget.

The main risks to specific departmental expenditure relate to growth in the demand for government services such as population based changes that impact demand for health and education services, government commitments contingent on external factors, and government responses to unforeseen events such as natural disasters and bushfires.

The 2008-09 revised estimates and forward estimates include a contingency provision to allow for the likelihood that some of these department specific and government wide expenditure risks will be realised during the remainder of the budget year or over the course of the forward years. The contingency provision includes a general allowance for:

- growth in Victoria's population, and consequent derived demand for government services;
- depreciation expenditure that would be associated with new asset investment funded from the unallocated capital provision (subject to government approval);
- other expenditure risks, which were unforeseen or not able to be quantified, or were not formalised at the time of construction of the budget estimates; and
- a number of existing programs which will conclude in 2008-09 or the following years, on the basis that government may endorse a number of these programs to continue or be replaced to meet service delivery priorities.

Realised expenditure risks will only impact on total expenditure and the annual budget position to the extent that they cannot be accommodated within the contingency provision built into the budget estimates.

The budget estimates also include an unallocated capital provision to provide capacity for future asset investment requirements. With a capital program the size of that funded by the Government, there are always likely to be variations in actual costs (compared to budget) for individual asset investment projects. However, the forward estimates assume that capital cost pressures are managed within the existing financial estimates.

Sensitivity Analysis

In addition to the fiscal risks outlined above, Appendix C, *Sensitivity Analysis Table*, quantifies the impact on revenue, expenses and the net result from transactions associated with variations to forecasts of selected economic and financial variables.

Summary Balance Sheet

The revised 2008-09 estimates have been based on the closing balance for 2007-08 as published in the 2007-08 *Financial Report for the State of Victoria*, which differs from the estimated closing balance for 2007-08 used in the *2008-09 Budget*. Therefore, it is more appropriate to provide commentary on revisions to the balance sheet compared to the 2007-08 outcome.

Table 3.3 provides a summary of the general government sector balance sheet. A more detailed balance sheet is provided in Chapter 5, *Estimated Financial Statements and Notes*.

Table 3.3: Summary balance sheet as at 30 June for the general government sector[(a)]

($ billion)

	2008 Actual	*2009 Revised*	*2010 Estimate*	*2011 Estimate*	*2012 Estimate*
Assets					
Non-Financial Assets	66.0	68.0	74.8	78.5	86.9
Financial Assets	8.9	9.1	9.1	9.0	9.1
Investments in other sector entities					
Public non-financial corporations	43.0	42.6	43.4	44.2	44.9
Public financial corporations	3.0	3.8	3.8	3.8	3.8
Total assets	**120.8**	**123.4**	**131.1**	**135.5**	**144.8**
Liabilities					
Superannuation	12.9	17.0	17.2	17.4	18.0
Borrowings	7.8	10.2	12.2	13.7	15.9
Other Liabilities	8.4	8.6	8.6	8.8	9.0
Total liabilities	**29.1**	**35.8**	**38.1**	**39.9**	**42.9**
Net assets	**91.7**	**87.5**	**93.0**	**95.6**	**101.9**

Source: Department of Treasury and Finance

Note:
(a) This is an abbreviated balance sheet. The full balance sheet for the general government sector is reported in Chapter 5, Estimated Financial Statements and Notes.

The general government net asset position, measured by subtracting total liabilities from total assets, is an important indicator of the sector's financial strength. A strong net asset position provides the capacity and the flexibility to absorb financial and economic shocks such as that currently being experienced by Victoria.

At 30 June 2008 the general government sector had total assets of $120.8 billion offset by liabilities of $29.1 billion, leaving a net position of $91.7 billion. Net assets are projected to grow strongly to $101.9 billion by 30 June 2012, as growth in total assets exceeds growth in total liabilities. The expected increase is attributed to infrastructure growth and revaluation increments to property, plant and equipment expected over the forward estimates period. This will be partially offset by an increase in the reported superannuation liability which is primarily attributed to a reduction in the Commonwealth Government bond rate that underpins the discount rate that is required to be used to value the liability for reporting purposes. The impact of share market volatility on superannuation assets has also contributed to the increased superannuation liability, by reducing the value of the underlying asset base.

Cash Flows

The government's infrastructure investment program underpins the provision of services to the people of Victoria in areas such as health, transport, housing and education services. New infrastructure projects approved since the *2008-09 Budget* include Regional Rolling Stock and the Southbank Cultural Precinct Redevelopment.

Table 3.4 provides a summary of cash generated through the operations of Victorian Government departments and other general government sector agencies, and how that cash is applied to infrastructure investment, and the associated impact on net debt.

Table 3.4: Application of cash resources for the general government sector

($ million)

	2008-09 Revised	*2009-10 Estimate*	*2010-11 Estimate*	*2011-12 Estimate*
Net result from transactions	**381.8**	**412.4**	**429.7**	**547.7**
Add back: Non-cash income and expenses (net) [(a)]	1 910.3	1 833.1	2 013.2	2 387.4
Net cash flow from operating activities	**2 292.1**	**2 245.5**	**2 442.9**	**2 935.0**
Less:				
Net investment in fixed assets				
Expenditure on approved projects	4 204.8	3 806.4	2 868.5	2 337.7
Capital provision approved but not yet allocated [(b)]	..	337.0	819.0	1 490.0
Meeting Our Transport Challenges Reserve to be allocated in future [(c)]	..	195.0	387.4	604.9
Proceeds from asset sales	(152.2)	(206.1)	(123.8)	(159.8)
Total net investment in fixed assets	**4 052.6**	**4 132.3**	**3 951.1**	**4 272.8**
Finance leases [(d)]	..	..	..	840.1
Other investment activities (net)	143.1	(22.6)	(24.3)	(24.7)
Decrease/(increase) in net debt	**(1 903.6)**	**(1 864.3)**	**(1 483.9)**	**(2 153.2)**

Source: Department of Treasury and Finance

Notes:

(a) Includes depreciation and non-cash movements in liabilities such as the superannuation liability and employee benefits.

(b) Amount available to be allocated to specific departments and projects in future budgets, including contributions to other sectors.

(c) Reflects the unallocated balance of the Meeting Our Transport Challenges Reserve which was announced in the May 2006 Budget.

(d) The finance lease recognised in 2011-12 is in relation to the redevelopment of the Royal Children's Hospital.

The government's net infrastructure investment program (which includes total purchases of property, plant and equipment, capital contributions to other sectors of government and net proceeds from sale of assets) is projected to average $4 102 million a year on average from 2008-09 to 2011-12. Approximately 60 per cent of the $16.4 billion infrastructure program over the four years to 2011-12 will be funded from the cash surpluses from operating activities. The remainder of the infrastructure program will be funded by borrowings.

Net Debt and Net Financial Liabilities

The key measures of the State's financial position are the Government Finance Statistics (GFS) measures of net debt and net financial liabilities. The international credit rating agencies focus on both net debt and net financial liabilities as measures of overall indebtedness. These measures can be calculated for individual sectors (such as general government), or for broader classifications of the public sector (such as the non-financial public sector) and are defined below.

Net debt is calculated by deducting liquid financial assets from gross debt. Liquid financial assets are deducted because they are considered to be readily available when necessary to redeem debt.

Net debt plus superannuation liabilities, as the name suggests, adds the net superannuation liability arising from government's defined benefit superannuation schemes to net debt. This broader measure of government's financial commitments was previously referred to in Victorian publications as 'net financial liabilities'. Due to changes in classifications arising from revised Uniform Presentation Framework applicable from 2008-09, this shorthand title now refers to a different aggregate (see below). Victoria continues to provide this measure for transparency and continuity reasons.

Net financial liabilities, adopted under the revised Uniform Presentation Framework, is defined as total liabilities less all financial assets (excluding equity).

Table 3.5 highlights these key measures for the general government sector.

Table 3.5: Net debt and net financial liabilities as at 30 June for the general government sector

($ million)

	1999 Actual	2008 Actual [(a)]	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Assets						
Cash and deposits	728.4	2 975.0	3 047.9	3 045.1	2 980.7	2 905.4
Advances paid	0.3	726.1	1 134.0	1 164.9	1 196.2	1 227.6
Investments, loans and placements	1 751.6	2 322.0	2 372.5	2 490.0	2 507.3	2 570.8
Total	**2 480.3**	**6 023.1**	**6 554.4**	**6 700.0**	**6 684.2**	**6 703.8**
Liabilities						
Deposits held	148.8	371.5	371.5	371.5	371.5	371.5
Advances received	10.9	35.5	1.9	1.2	0.5	..
Borrowings	7 112.4	7 798.1	10 234.6	12 245.3	13 714.0	15 887.3
Total	**7 272.1**	**8 205.2**	**10 608.0**	**12 618.0**	**14 086.0**	**16 258.8**
Net debt	**4 791.8**	**2 182.0**	**4 053.6**	**5 917.9**	**7 401.8**	**9 555.0**
Superannuation liabilities	11 432.4	12 926.8	17 018.2	17 192.9	17 394.8	17 980.9
Net debt plus superannuation liabilities	**16 224.2**	**15 108.8**	**21 071.8**	**23 110.8**	**24 796.6**	**27 535.8**
Other liabilities (net) [(b)]	2 535.5	5 352.8	5 697.2	5 885.4	6 125.6	6 223.5
Net financial liabilities	**18 759.7**	**20 461.6**	**26 769.0**	**28 996.2**	**30 922.3**	**33 759.3**
		(per cent)				
Net debt to GSP [(c)]	3.1	0.8	1.5	2.0	2.4	2.9
Net debt plus superannuation liabilities to GSP [(c)]	10.3	5.6	7.6	7.9	8.1	8.5
Net financial liabilities to GSP [(c)]	11.9	7.6	9.6	9.9	10.0	10.4

Source: Department of Treasury and Finance

Notes:

(a) As published in the 2007-08 Financial Report for the State of Victoria.

(b) Other net liabilities includes other employee entitlements and provisions and other non-equity liabilities, less other non-equity assets.

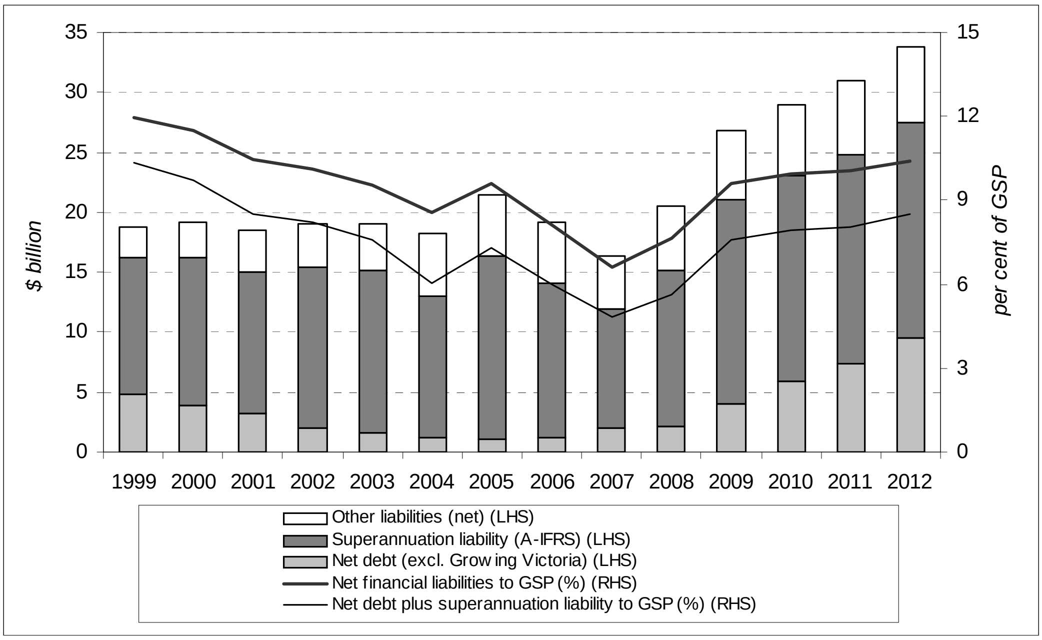
(c) Ratios to GSP may vary from publications year to year due to revisions to the ABS GSP data.

As shown in Table 3.5, general government net debt will increase from $2.2 billion at June 2008 to $9.6 billion at June 2012. As a proportion of GSP, net debt will continue to remain at historically low levels, increasing from 0.8 per cent of GSP at 30 June 2008 to 2.9 per cent of GSP as at 30 June 2012. This increase in net debt over the forward estimates period reflects the size of the projected infrastructure investment that reinforces the government's commitment to delivering world-class infrastructure to enhance social, economic and environmental benefits across the State.

Chart 3.1 shows that, as a share of GSP, general government net financial liabilities are expected to increase from 7.6 per cent at 30 June 2008 to 10.4 per cent at 30 June 2012. Since the *2008-09 Budget*, projected net financial liabilities at 30 June 2012 have been revised upwards by $4.9 billion, largely reflecting an increase in the estimated superannuation liability. As discussed previously, the superannuation liability has been significantly impacted by the recent downward movement in long-term Commonwealth

Government bond rates which form the basis of the discount rate that is required to be used to value the superannuation liability. The impact of financial market volatility on superannuation assets has also contributed to the increased liability, by reducing the value of the underlying asset base.

Chart 3.1 Net financial liabilities as at 30 June for the general government sector[(a)]



Source: Department of Treasury and Finance

Note:
(a) Superannuation liabilities between 1999 and 2004 are calculated under the previous Australian accounting standards, whereas from 2005 onward AASB 119 has been applied.

NON-FINANCIAL PUBLIC SECTOR

The financial position of the non-financial public sector (NFPS) is derived from combining the estimated outcomes for the general government sector and the public non-financial corporations (PNFC). Transactions between the general government and PNFC sectors are eliminated, including dividends payable by public non-financial corporations.

This section builds on the information presented earlier in this chapter, by incorporating the broader public sector, through the addition of the state's PNFCs to the general government sector, thereby producing the NFPS. The fiscal aggregates reported in this section are not targeted by the government's budget strategy, although they do contribute to the government's objective to maintain net financial liabilities at prudent levels, including the maintenance of a AAA rating.

The financial position of the broader NFPS is of particular significance considering the level of investment in new infrastructure being implemented by the State's PNFCs. The following discussion of the NFPS does not include an operating statement, as all revisions to the budget are largely reflected in the general government sector's operating statement, which has been discussed earlier in this chapter.

Summary Balance Sheet

Table 3.6: Summary balance sheet as at 30 June for the non-financial public sector

($ billion)

	1999 Actual AAS	*2008 Actuals*	*2009 Revised*	*2010 Estimate*	*2011 Estimate*	*2012 Estimate*
Assets						
Non-Financial Assets	57.0	112.2	119.2	129.8	136.9	147.7
Financial Assets	7.2	13.8	13.2	13.0	12.8	12.7
Investments in other sector entities	1.2	3.4	3.7	3.8	3.8	3.8
Total assets	**65.4**	**129.4**	**136.2**	**146.6**	**153.4**	**164.2**
Liabilities						
Superannuation	11.4	13.0	17.0	17.2	17.4	18.0
Borrowings	9.9	13.4	18.4	23.2	27.3	31.2
Other Liabilities	6.2	11.1	11.1	11.0	11.0	10.9
Total liabilities	**27.5**	**37.5**	**46.6**	**51.5**	**55.7**	**60.1**
Net assets	**37.9**	**91.9**	**89.6**	**95.1**	**97.8**	**104.1**

Source: Department of Treasury and Finance

Table 3.6 shows the summary NFPS balance sheet. Net assets are expected to increase from $91.9 billion at 30 June 2008 to $104.1 billion in June 2012. This is largely due to infrastructure spending and forecast asset revaluations over the forward estimates period.

NFPS borrowings are expected to rise from $13.4 billion at June 2008 to $31.2 billion at June 2012, supporting the State's $29.9 billion net infrastructure program. Of the new borrowings expected to be incurred over the four years to June 2012, approximately 60 per cent will be by the PNFC sector where it will largely be serviced through sales revenue.

Virtually all the State's PNFC sector employees are in fully funded superannuation schemes. Hence the superannuation obligation for the NFPS largely reflects that of the general government sector, the details of which were discussed earlier in the chapter.

Cash Flows

Table 3.7 provides a summary of cash generated through the operations of NFPS, and how that cash is applied to infrastructure investment, and the associated impact on net debt.

Table 3.7: Application of cash resources for the non-financial public sector

($ million)	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Net result from transactions	31.1	150.1	424.0	719.2
Add back: Non-cash income and expenses (net) [(a)]	2 621.2	2 686.8	2 949.4	3 351.7
Net cash flow from operating activities	**2 652.3**	**2 836.9**	**3 373.5**	**4 070.9**
Less:				
Net investment in fixed assets				
Expenditure on approved projects	7 810.5	8 015.5	7 756.7	7 446.7
Proceeds from asset sales	(326.3)	(353.3)	(255.2)	(233.0)
Total net investment in fixed assets	**7 484.3**	**7 662.2**	**7 501.4**	**7 213.7**
Finance leases [(b)]	..	..	..	840.1
Other investment activities (net)	730.1	93.2	163.3	171.4
Decrease/(increase) in net debt	**(5 562.0)**	**(4 918.5)**	**(4 291.2)**	**(4 154.2)**

Source: Department of Treasury and Finance

Notes:
(a) Includes depreciation and non-cash movements in liabilities such as the superannuation liability and employee benefits.
(b) The finance lease recognised in 2011-12 is in relation to the redevelopment of the Royal Children's Hospital.

Net investment in fixed assets by the NFPS is estimated to be $7.5 billion in 2008-09, and will reach an estimated total of $29.9 billion for the four years to 2011-12. Of the investment in new infrastructure, it is estimated that 43 per cent will be funded from cash operating surpluses.

The government has already announced significant infrastructure investments for the PNFC sector, including $4.9 billion to diversify and secure water supplies for the long term.

Net Debt and Net Financial Liabilities

As Table 3.8 shows, NFPS net debt is projected to be 7.0 per cent of GSP as at 30 June 2012 which is considered low by long-term historical standards. The State is making prudent use of its strong financial capacity to fund key public infrastructure. As a result, NFPS net debt will increase from $3.9 billion at 30 June 2008 to $22.8 billion at 30 June 2012. This is largely consistent with the estimate presented in the *2008-09 Budget*.

Table 3.8: Net debt and net financial liabilities as at 30 June for the non-financial public sector

	1999 Actual	2008 Actual[(a)]	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
		($ million)				
Assets						
Cash and deposits	1 182.5	3 896.7	3 802.4	3 753.3	3 780.8	3 783.2
Advances paid	7.5	822.7	666.9	656.1	649.0	645.2
Investments, loans and placements	2 852.1	5 325.3	4 969.9	4 870.0	4 615.3	4 371.7
Total	**4 042.1**	**10 044.6**	**9 439.2**	**9 279.5**	**9 045.2**	**8 800.1**
Liabilities						
Deposits held	178.0	487.3	439.8	439.8	439.0	441.5
Advances received	36.0	41.9	2.0	1.3	0.6	0.1
Borrowings	9 886.4	13 405.8	18 449.6	23 209.1	27 267.6	31 174.7
Total	**10 100.4**	**13 934.9**	**18 891.5**	**23 650.3**	**27 707.2**	**31 616.4**
Net debt	**6 058.3**	**3 890.3**	**9 452.3**	**14 370.8**	**18 662.0**	**22 816.3**
Superannuation liability	11 432.4	12 958.8	17 039.7	17 212.5	17 412.0	17 995.0
Net debt plus superannuation liabilities	**17 490.7**	**16 849.1**	**26 492.0**	**31 583.3**	**36 074.1**	**40 811.2**
Other liabilities (net) [(b)]	3 343.2	6 378.6	6 869.1	6 835.1	6 791.6	6 571.9
Net financial liabilities	**20 833.8**	**23 227.8**	**33 361.0**	**38 418.4**	**42 865.7**	**47 383.2**
		(per cent)				
Net debt to GSP [(c)]	3.9	1.5	3.4	4.9	6.1	7.0
Net debt plus superannuation liabilities to GSP [(c)]	11.1	6.3	9.5	10.8	11.7	12.6
Net financial liabilities to GSP [(c)]	13.3	8.7	12.0	13.2	13.9	14.6

Source: Department of Treasury and Finance

Notes:
(a) As published in the 2007-08 Financial Report for the State of Victoria.
(b) Other net liabilities includes other employee entitlements and provisions and other non-equity assets and liabilities.
(c) Ratios to GSP may vary from publications year to year due to revisions to the ABS GSP data.

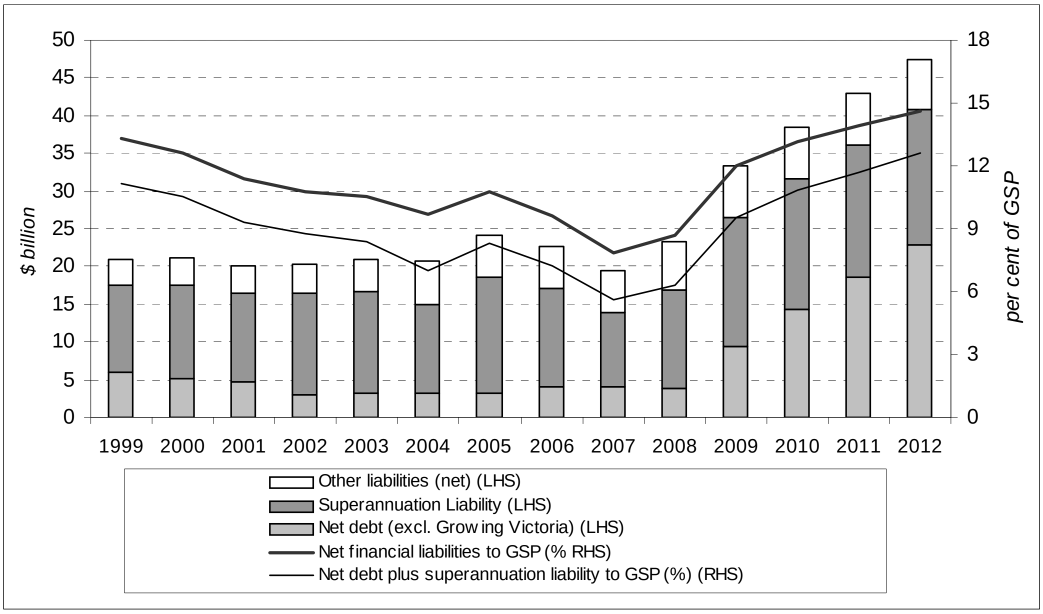
Since the *2008-09 Budget*, projected net financial liabilities for the NFPS as at 30 June 2012 have been revised upwards by $4.6 billion due to an increase in the superannuation liability.

Net debt plus superannuation liabilities are forecast to increase to $40.8 billion by 30 June 2012, representing an increase of $4.7 billion in comparison to the *2008-09 Budget*. These increases predominantly reflect the impact of the increase in the net superannuation liability as discussed earlier in the chapter.

The international ratings agencies, Standard & Poor's and Moody's Investor Services consider a range of financial indicators in assessing a state's rating. A key indicator is NFPS net debt plus superannuation liabilities to GSP. This ratio is forecast to increase from 6.3 per cent in 2007-08 to 12.6 per cent in 2011-12, and remains well within the ratio required to maintain the AAA rating. Victoria's AAA credit rating was reaffirmed by Standards & Poor's on 27 November 2008.

Chart 3.2 shows that, as a share of GSP, NFPS net financial liabilities are expected to increase from 8.7 per cent in 2008 to 14.6 per cent in 2012. This is higher than expected at the time of the *2008-09 Budget* reflecting the impact of increases in the superannuation liability due to changes in the bond rates used to calculate the net present value of the liability, and declines in equity markets flowing from the global financial crisis.

Chart 3.2: Net financial liabilities as at 30 June for the non financial public sector[(a)]



Source: Department of Treasury and Finance

Note:

(a) Superannuation liabilities between 1999 and 2004 are calculated under the previous Australian accounting standards, whereas from 2005 onward AASB 119 has been applied.

CHAPTER 4: ECONOMIC REFORM AGENDA

- The Victorian economy has grown strongly over the past decade as a result of effective economic management.
- A strong reform focus has enabled the Victorian economy to perform well despite local and global uncertainties.
- Although growth is expected to slow in the short term, economic reform focused on the long term is vital to ensure that the economy can continue to be competitive in a global market in the face of an ageing population and climate change.
- Some of the key areas of reform are continued investment in infrastructure and reform to boost productivity in areas such as skills and business competitiveness.

The Victorian economy has grown strongly over the past decade in part due to Victoria's willingness to undertake key reforms. Victoria's reforms have also put it in a stronger position to weather adverse events such as the global financial crisis. With solid foundations for growth, including a skilled workforce, a competitive taxation environment and sound government finances, Victoria has the capacity to respond flexibly to changing economic conditions.

In order to continue to meet the challenges of an uncertain global economy, economic reform needs to be maintained to improve productivity and workforce participation both at a state and national level.

Key areas of reform in Victoria to enable long-term economic growth are:

- continued strategic infrastructure investment;
- increasing people's skills;
- improving business competitiveness and workforce health; and
- meeting the challenges of climate change and water security.

Continued state-based reform will enable long-term economic growth. At the same time, because of overlapping responsibilities between the State and Commonwealth, it is important that both levels of government collaborate in significant reform in areas such as service delivery, infrastructure and taxation.

The Council of Australian Governments (COAG) has been meeting regularly throughout 2008. COAG Working Groups have developed reform agendas in the areas of health and ageing, the productivity agenda (including education, skills and early childhood), climate change and water, infrastructure (including transport), business regulation and competition, housing and indigenous reform and, through Treasurers, Commonwealth-State financial relations.

Decisions taken by COAG will be important foundations for ongoing productivity growth.

FOSTERING ECONOMIC GROWTH

Infrastructure investment

Victoria faces a number of challenges in the effective management of its existing infrastructure assets as well as the planning and construction of new assets needed to support the State's ongoing economic growth and productivity.

The 2006 Census of Population and Housing has highlighted the challenges from higher than anticipated population growth, especially for metropolitan Melbourne. This is expected to continue and requires careful planning and timely decisions about Victoria's infrastructure needs over the next 20 years. Other demographic challenges facing the State include the ageing population, changes in household composition and population movements across Victoria, all of which need to be considered in determining infrastructure requirements.

The Government is investing heavily in social infrastructure, including modernising hospitals and schools. An example of this commitment is a long-term program of rebuilding or modernising every Victorian government school over a 10 year period. The *Victorian Schools Plan* will transform education infrastructure by ensuring all Victorian government schools are equipped to provide high quality education to their students.

The Government has also made a number of investments in economic infrastructure, such as roads, rail lines and port facilities with a view to improving the overall efficiency of the transport network.

At a national level, the COAG process presents an opportunity to tackle the infrastructure investment challenges across jurisdictions. Efficiency gains will be accrued through collaborative action to streamline planning processes, remove regulatory duplication and the creation of a national market to facilitate infrastructure investment and construction. Victoria is participating actively with the Commonwealth Government to develop a long-term pipeline of nationally significant infrastructure investments.

Supporting industry

The Government's overarching industry development strategy comprises:

- delivering broad economic reforms and business programs to boost competitiveness;
- investing in the skills and innovation capabilities needed for the future; and
- stimulating the growth of more globally competitive and sustainable industries and companies.

In November 2008, the Government released *Building Our Industries – Making Our Future*, which focuses on specific sectors and industry issues central to Victoria's future. *Building Our Industries* brings together $245 million in programs and projects to help Victorian industry take advantage of opportunities for growth, including $123 million for a Manufacturing Action Plan to keep building a modern manufacturing sector, and $97 million for a Services Action Plan to strengthen service sectors which enable industry growth and where Victoria has a competitive edge.

Increasing skill levels

Labour force and productivity growth are the key determinants of Victoria's long-run economic growth. Over the coming decades, an ageing population means that economic reform will need to deliver higher labour force participation and stronger productivity growth if Victoria's prosperity is to be sustained.

The knowledge and skills of Victoria's workforce influence both labour force participation and productivity. Those with higher skills are more likely to participate in the workforce and to work to an older age. They are also more productive and innovative, and better able to adapt and contribute to changing circumstances.

Higher levels of education deliver a range of lifetime benefits to individuals, including higher incomes, lower rates of unemployment and better health and wellbeing. Reforms that improve education outcomes and encourage more people to stay in or re-enter education and training therefore also have important implications for equity, helping to improve the distribution of the benefits of economic growth.

Vocational education and training

In August 2008, the Victorian Government announced a package of major reforms to the State's vocational education and training system, which includes additional investment of $316 million over four years.

Victoria's training system was already performing well, and leading the nation against most benchmarks. However, changes in industry structure over recent decades and an increasingly competitive and fast-moving global environment have increased the importance of building the skills of the State's workforce, and of responding more quickly to changes in skill needs. For example, the Centre for the Economics of

Education and Training projects that stronger demand for higher level skills requires a change in the mix of training – away from lower level qualifications and towards diplomas, advanced diplomas and higher level certificate courses – if the State's skill requirements are to be met.

The package of reforms announced in August 2008 in *Securing Jobs for Your Future – Skills for Victoria* is designed to meet these challenges by:

- increasing the number of people undertaking training in the areas and at the levels where skills are needed;
- developing a training system that engages more effectively with individuals and businesses and is easier to navigate;
- ensuring the system is responsive to the changing needs of Victoria's industry and workforce; and
- creating a culture of lifelong skills development.

Key reforms to be phased in from 2009 include:

- an entitlement to a government subsidised place in recognised training for all young people up to 20 years of age, and for all those training at a higher level than their current qualification who are 20 and over;
- improved choice and contestability, with individuals and businesses able to access government supported training at a broader range of public, private and community providers;
- increasing investment in training from those who benefit most from training: government, businesses and individuals;
- more advice on skill needs and assistance with organising training for small and medium sized businesses;
- capacity building in the TAFE and Adult, Community and Further Education sectors; and
- better information to make it easier for individuals and businesses to understand and use the training system.

At the national level, COAG has also endorsed goals that reflect the need to broaden and deepen the skills of the working age population and improve the match between the supply of skills and changing labour market demands.

Schools and early childhood

Victoria has a strong history of achievement in early childhood development and school education. Victoria provides a comprehensive set of accessible universal early childhood services and its schools perform well by both national and international standards. To build upon these successes, the Government is pursuing a number of further reforms in the sector.

In September 2008, the new *Blueprint for Education and Early Childhood Development* outlined Victoria's five year agenda for learning and development from birth to adulthood. It aims to increase access to high quality early childhood health, education and care services, promote a strong and vibrant government school sector, integrate services for children and families and improve outcomes for disadvantaged young Victorians.

To achieve this, the *Blueprint for Education and Early Childhood Development* outlines a set of strategies and specific actions in the areas of system improvement, partnerships with parents and communities, and workforce reform. Key actions to be undertaken over the next 12 months include:

- finalisation of new regulations for children's services and the extension of free kindergarten through fee subsidies for children known to child protection;
- release of a statement on Victoria's approach to literacy and numeracy and implementation of the enhanced School Accountability and Improvement Framework;
- publication of guidance to schools and early childhood services on engaging with parents;
- release of a strategy to improve participation and outcomes in areas of socio-economic disadvantage; and
- release of an early childhood workforce strategy and recruitment of the first intake into the *Teach First* program, which will employ outstanding graduates in disadvantaged Government schools.

The *Victorian Schools Plan* to rebuild or modernise every Victorian government school over a 10 year period continues to progress, with funding for a further 128 schools provided in the *2008-09 Budget.* This funding will see more than half the number of all schools scheduled to be modernised by 2010-11.

At a national level, the Ministerial Council on Education, Employment, Training and Youth Affairs recently released a draft new *National Declaration on Educational Goals for Young Australians (Declaration)*. The final *Declaration* is due to be released later in the year and will set the direction for Australian schooling over the next 10 years.

The *Declaration* aims to reflect the fundamental changes that have occurred in the way students learn in the new century. It will commit state and territory governments, together with the Commonwealth and all school sectors and stakeholders, to a new level of collaboration with respect to:

- developing stronger partnerships with parents, the community and business;
- strengthening early childhood development;
- supporting effective transitions through schooling;
- improving school leadership and the quality of teaching;

- developing a world class curriculum;
- improving educational outcomes for students from Indigenous and low socio-economic backgrounds; and
- increasing accountability and transparency.

At the national level, all governments have agreed for the first time on a common framework for reform of education, including a comprehensive set of aspirations, outcomes, progress measures and future policy directions.

COAG has agreed to the development of a broad national strategy for early childhood development, and that reforms in schools will aim to support all teachers and school leaders in lifting the ability of all young Australians to engage, learn and achieve in schooling.

A National Partnership agreement is being developed focusing on the particular educational needs of low socio-economic status school communities. There has also been agreement for the establishment of a National Curriculum Board, which will bring together at a national level the functions of curriculum, assessment and data management, analysis and reporting.

Improving business competitiveness

The Victorian Government has long been a leader in regulatory reform and recognises the need to sustain reform efforts at both the State and national level to maintain our competitive edge and boost productivity.

Continued reduction of business costs, including tax changes, reductions in red tape, improvements to infrastructure and an emphasis on innovation and research and development will improve the national and international competitiveness of all Victorian businesses and help foster economic growth.

Victoria is a leader in the adoption of strategies to reduce regulatory costs on business. In July 2006, the Government announced the *Reducing the Regulatory Burden* initiative, Victoria's policy for reducing the cost of regulation for businesses and not-for-profit organisations. The Government announced that it would:

- cut the existing administrative burden of regulation by 15 per cent over three years and 25 per cent over five years;
- ensure the administrative burden of any new regulation is met by an offsetting simplification in the same or related area; and
- undertake a program of reviews to identify the necessary actions to reduce compliance burdens.

In terms of administrative burden, this translates into a net reduction equivalent to savings to business and not-for-profit organisations of $154 million a year by July 2009 and $256 million a year by July 2011. The productivity boost from reducing red tape has the potential to expand Victoria's economy by up to $747 million a year (in 2005-06 prices) by 2016.

All departments are now implementing their three-year administrative burden reduction plans. Provisional estimates indicate that Victoria is progressing well against the July 2009 target. Over the past year, the Government has accelerated its regulatory review activities and, as a result, forecast net reductions from the program's initiatives are now estimated to be in the order of $162 million.

A detailed update on further prospective reductions as a result of changes implemented during 2007-08 was released by the Treasurer in November 2008. For example, the Growth Areas Authority is developing Stage 2 of the Streamlining Planning in Melbourne's Growth Areas project. This will reform the planning and construction approval process following the initial land rezoning period, with expected savings of an estimated $18 million annually in administrative costs.

Reviews have also commenced to deliver on the Government's commitment to reduce the number of principal Acts of Parliament by 20 per cent by 2010. A total of 70 Acts have been repealed to date, and further repeal bills will be introduced for consideration by the Victorian Parliament before the end of 2008.

Victoria is at the forefront of ongoing multi-jurisdictional action to reduce the burden of regulation. Victoria has taken a leading role in discussions within COAG, the Council for the Australian Federation, numerous Ministerial Councils, and bilaterally with other states, aimed at increasing harmonisation in regulatory definitions and administration, and minimising the cost of regulation to businesses, not-for-profit organisations, and individuals.

For example, New South Wales and Victoria were the first states to harmonise payroll tax legislation, including common definitions and exemptions, that will reduce payroll tax paperwork for around 8 000 businesses with operations on both sides of the Murray River. Queensland and Tasmania have now also adopted this harmonised legislation and other jurisdictions have committed to joining the harmonised model as soon as practicable. New South Wales and Victoria are also working to harmonise WorkCover with payroll tax arrangements, further reducing paperwork for affected businesses.

COAG's Business Regulation and Competition Working Group is driving the agreed COAG agenda for reduction of the regulatory burden on business by accelerating and broadening regulation and competition policy reforms and improving processes for regulation making and review.

This group is now monitoring the implementation of an accelerated reform agenda covering 27 existing and new areas of regulatory reform, in which harmonisation of occupational health and safety legislation is the top priority. COAG recently signed an intergovernmental agreement on occupational health and safety harmonisation with an accelerated implementation timeframe of 2011.

A healthy workforce

An important driver of Victoria's economic growth is the health and wellbeing of the population. A healthy workforce, in particular, is critical to the State's economic productivity and long-term sustainability. This is why dealing with the rise of chronic disease – which accounts for a large proportion of Victoria's health spending and lower workforce participation – is a priority for government, and one where the pay off of effective reform to improve prevention is likely to be substantial.

Cancer remains the leading cause of death in Victoria, with around 500 Victorians diagnosed with cancer every week. Type 2 diabetes accounts for 1.6 per cent of total health system expenditure in Australia.

The Government is committed to a coordinated approach to improving prevention of chronic disease, with recent initiatives designed to reduce the incidence of the most common preventable diseases. The new $600 million fund set up to resource the *WorkHealth* initiative, for example, targets the connection between chronic disease and workplace injury by providing information, advice and work place screening to assess workers at risk of developing chronic diseases such as diabetes and heart disease.

The *2008-09 Budget* investment of $150 million over four years in *Victoria's Cancer Plan 2008-2011* will improve survival rates and build on innovation in early diagnosis, prevention, treatment and research.

A new Victorian mental health strategy which includes a focus on awareness promotion and prevention will build on the *2008-09 Budget* commitment of around $77 million over four years and $34 million in capital funding to improve mental health services and facilities.

Further work in this area will require the efforts not just of Victoria, but also other states and territories and the Commonwealth, to turn local health promotion and preventative initiatives and ideas into proven, evidence based and well supported programs.

MEETING CHALLENGES TO ECONOMIC GROWTH

At both the Commonwealth and State level there have been a number of recent policy developments relating to the challenges and opportunities posed by climate change.

Commonwealth Carbon Pollution Reduction Scheme Green Paper and modelling

In July 2008 the Commonwealth released the Carbon Pollution Reduction Scheme (CPRS) Green Paper, setting out preferred positions on key scheme design issues and posing questions to be responded to by stakeholders. The CPRS will be the keystone of Australia's climate change mitigation policy. The Victorian Government made a submission to this consultation process, outlining a set of high-level principles the Victorian Government believes the Commonwealth should use to guide their final decisions on scheme design issues. The CPRS White Paper, which will finalise the design of the CPRS, is due to be released in December 2008.

In October 2008 the Commonwealth released economic modelling of the impacts of the CPRS design outlined in the Green Paper. The modelling finds that Australia can achieve emission reductions on 2000 level emissions of between 5 to 25 per cent by 2020, and 60 to 90 per cent by 2050 with corresponding action from other global economies, while continuing to prosper economically. The modelling finds that the economic impacts on Victoria will be somewhat greater than those experienced at the national level. Despite this, the modelling indicates that Victorian GSP will experience only small effects from CPRS commencement.

The Garnaut Climate Change Review

In September 2008 the *Garnaut Climate Change Review* submitted its final report to the Commonwealth and eight states and territories. Consistent with other reviews on the impacts of climate change, such as the review of climate change impacts by Sir Nicholas Stern, Garnaut concluded that the costs of inaction on climate change outweigh the costs of action.

The *Garnaut Climate Change Review* provides recommendations around appropriate actions for different levels of government in responding to climate change, and will be a key input in developing policy in response to climate change.

Victorian Government Climate Change Green/White Paper series

In light of the Commonwealth's proposal to implement the CPRS in 2010, Victoria's existing suite of climate change policies will need to be reviewed in order to ensure complementarity with the CPRS.

The *Victorian Climate Change Green Paper* due in early 2009 will articulate the role for different levels of government in responding to climate change in terms of mitigating its effects, adapting to unavoidable climate change, and adjusting to the impacts of policy responses to climate change. Additionally, the *Victorian Climate Change Green Paper* will focus on various sectors of the economy, and sources of emissions, to outline complementary policies the Victorian Government can introduce in response to climate change.

Water Security and Flexibility

The future impacts of climate change on rainfall in Victoria require action to develop new sources of water supply and ensure that water resources are effectively managed across the State. The Government is committed to a number of water supply projects and reforms to the urban and rural water sectors to ensure water security for Victorians in a changed environment. In the medium to longer term, the expansion of Victoria's water grid and $4.9 billion in investment in new sources of supply, as set out in *Our Water, Our Future – The Next Stage of the Government's Water Plan*, mean that urban water will be provided from a portfolio of options with different risk and cost profiles. In particular, work is progressing on the Wonthaggi desalination plant with the shortlisting of two consortia to deliver and operate the plant, while construction of the Sugarloaf Pipeline began on 18 September 2008.

Urban Water Reform

In July 2008, the Government released its response to the final report of the Victorian Competition and Efficiency Commission's (VCEC) inquiry into reform of the metropolitan retail water sector. The Government fully or partly supported 20 of the VCEC's 21 recommendations, including a commitment to develop a state-based access regime for water infrastructure.

The implementation of the Government response will improve the governance and regulatory arrangements for the metropolitan water sector, clarify the rights of water users and improve the integration of water resource management in Melbourne.

Achieving maximum efficiency from the expanded water sector, and hence minimising the impact of water prices on consumers, will be achieved through longer-term reforms. With this objective, the Government is designing arrangements for optimising system management of the expanded water grid and new water sources, and determining the appropriate roles and responsibilities in the new system. Further development of market-based mechanisms such as a state-based access regime for water and wastewater infrastructure will promote the efficient use of the water grid and facilitate the development of innovative local solutions to water supply.

Rural Water Reform

In July 2008, COAG signed an intergovernmental agreement (IGA) on Murray-Darling Basin Reform that establishes the new governance of the Murray-Darling Basin. Central to the new arrangements for the Basin is the preparation of a Basin Plan by an independent, expert Murray-Darling Basin Authority. The Basin Plan will set sustainable diversion limits on water use in the Basin to ensure the long-term future health and prosperity of the Murray-Darling Basin and to safeguard the water needs of the communities that rely on its water resources. Under the IGA, Victorian farmers are guaranteed their existing share of Murray water until the current water allocation plans expire in 2019. Victoria will also receive Commonwealth funding of up to $1 billion for the Northern Victoria Infrastructure Renewal Project and $103 million for the Sunraysia Modernisation Project. These projects will significantly improve the irrigation infrastructure of Northern Victoria, providing water efficiency savings for irrigators, the environment and metropolitan water users.

In addition to developments at COAG, the Victorian Government released the Draft *Sustainable Water Strategy* for the Northern Region on 10 October 2008. The Draft Strategy considers long-term reforms to the rural water sector to improve water security and improve the efficient and sustainable use of water resources in Northern Victoria. In particular, the Draft Strategy proposes a framework for water resource management in a future of increased water scarcity and lower reliability. A key principle of this strategy is to allow users to better manage the risk of water scarcity through the use of carryover and water trade.

Irrigation communities are likely to face a need for structural adjustment, driven by reduced water availability from climate change and the Commonwealth’s environmental water purchasing program, which will buy back $3.1 billion worth of water entitlements across the Murray-Darling Basin. As water trades out of areas where farmers are willing to sell, there will be an increasing need to manage the flow-on impact on local communities.

MAINTAINING THE MOMENTUM

In order to sustain growth in the long run, Victoria will continue to pursue reform and make strategic investments in areas such as infrastructure, skills, workforce health, and business competitiveness. At the same time, action will be taken to reduce the impact of climate change and to secure Victoria’s water supplies.

In areas of joint Commonwealth-State responsibility, Victoria will continue to work with the Commonwealth to pursue the best outcomes for the Victorian community.

CHAPTER 5: ESTIMATED FINANCIAL STATEMENTS AND NOTES

The estimated financial statements have been prepared in accordance with the provisions of the *Financial Management Act 1994*. This Act requires the estimated financial statements to be consistent with the financial policy objectives and strategies statement (see Chapter 1, *Financial Policy Objectives and Strategy*), in a manner and form determined by the Minister.

Consistent with the form of the estimated financial statements presented in the *2008-09 Budget Papers*, these revised statements have been prepared in accordance with applicable Australian Accounting Standards, in particular, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The financial statements and notes in this chapter, together with additional tables in Chapter 6 meet the disclosure requirements of the uniform presentation framework.

The accompanying notes to the statements provide revised details of the material economic and other assumptions. Only those specific forecast assumptions that have been changed since the *2008-09 Budget* have been included. A number of these assumptions are subject to inherent uncertainties, which are outside the control of the Government.

Due to the possibility that circumstances or events outlined in the revised estimated financial statements may not occur as expected, actual results may differ from those forecast and the difference may be material. Accordingly, no guarantee is given that the financial results will be achieved. However, the best professional judgement has been applied in preparing these revised estimated financial statements.

Table 5.1: Estimated operating statement for the period ended 30 June

($ million)

	Notes	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Revenue						
Taxation revenue	*2*	13 382.9	12 880.1	13 507.4	14 324.2	14 832.7
Interest		402.2	436.1	477.6	480.2	478.0
Dividends and income tax equivalent and rate equivalent revenue	*3*	669.9	501.0	553.1	437.4	705.0
Sales of goods and services	*4*	4 334.5	4 789.3	5 042.5	5 041.7	5 121.7
Grants	*5*	17 555.0	17 717.9	18 336.4	19 136.2	20 045.7
Other current revenue	*6*	1 465.6	1 645.8	1 523.6	1 550.3	1 504.5
Total revenue		**37 810.0**	**37 970.3**	**39 440.7**	**40 969.9**	**42 687.6**
Expenses						
Employee expenses		14 225.6	14 257.9	15 309.5	16 270.8	17 144.9
Superannuation interest expense	*7*	518.6	609.7	679.1	689.8	719.2
Other superannuation	*7*	1 339.6	1 366.3	1 399.4	1 462.6	1 503.4
Depreciation	*8*	1 609.4	1 596.2	1 675.0	1 787.3	1 902.0
Interest expense	*9*	499.4	565.4	639.8	755.8	832.4
Other operating expenses		12 350.4	12 398.1	12 726.4	13 083.6	13 545.9
Grants and other transfers	*10*	6 439.4	6 795.0	6 599.1	6 490.4	6 492.1
Total expenses	*11*	**36 982.4**	**37 588.5**	**39 028.3**	**40 540.3**	**42 139.9**
Net result from transactions – Net operating balance	***24a***	**827.5**	**381.8**	**412.4**	**429.7**	**547.7**
Other economic flows included in net result						
Net gain/ (loss) on sale of non-financial assets		39.9	26.4	44.3	3.7	7.3
Net gain/ (loss) on financial instruments at fair value		0.6	0.6	0.5	0.6	0.7
Net actuarial gains/ (losses) of superannuation defined benefits plans	*7*	..	(3 877.3)	..	..	..
Other gains/ (losses) from other economic flows	*12*	(151.1)	(272.2)	(133.6)	(145.6)	(145.6)
Total other economic flows included in net result		**(110.6)**	**(4 122.5)**	**(88.8)**	**(141.3)**	**(137.6)**
Net result		**716.9**	**(3 740.7)**	**323.6**	**288.4**	**410.1**

Table 5.1: Estimated operating statement for the period ended 30 June (continued)

($ million)

	Notes	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Other Economic Flows – Other Movements in Equity						
Revaluations of non-financial assets		2 293.5	545.3	5 499.7	2 353.9	5 819.4
Net gain on equity investments in other sector entities at proportional share of net assets	*14*	407.2	289.2	(338.0)	(50.5)	54.2
Other movements in equity		(10.5)	(8.5)	(5.2)	0.5	2.5
Total other economic flows – Other movements in equity		**2 690.2**	**826.1**	**5 156.5**	**2 303.9**	**5 876.1**
Comprehensive result – Total change in net worth	***24b***	**3 407.1**	**(2 914.6)**	**5 480.1**	**2 592.3**	**6 286.3**
FISCAL AGGREGATES						
Net operating balance		**827.5**	**381.8**	**412.4**	**429.7**	**547.7**
Less: Net acquisition of non-financial assets from transactions	*15*	1 269.2	1 438.4	1 324.0	1 331.8	2 537.2
Net lending/ (borrowing)	***24c***	**(441.7)**	**(1 056.6)**	**(911.7)**	**(902.1)**	**(1 989.5)**

The accompanying notes form part of these estimated financial statements

Table 5.2: Estimated balance sheet as at 30 June

($ million)

	Notes	2009 Budget [(a)]	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Assets						
Financial assets						
Cash and deposits		3 049.1	3 047.9	3 045.1	2 980.7	2 905.4
Advances paid		630.9	635.9	666.8	698.1	729.5
Investments, loans and placements		2 345.3	2 372.5	2 490.0	2 507.3	2 570.8
Receivables	*13*	2 562.7	2 479.8	2 356.1	2 279.6	2 349.6
Investments in general government sector entities using the equity method		648.1	498.1	498.1	498.1	498.1
Investments accounted for using equity method – other		25.0	27.9	32.9	37.9	42.9
Investments in other sector entities	*14*	46 539.3	46 332.5	47 188.3	48 014.9	48 739.8
Total financial assets		55 800.3	55 394.6	56 277.3	57 016.5	57 836.1
Non-financial assets						
Inventories		222.5	222.1	222.4	222.2	221.9
Non-financial assets held for sale		70.8	70.8	70.8	70.8	70.9
Land, buildings, infrastructure, plant and equipment	*16, 17*	68 764.0	67 182.4	74 075.2	77 771.0	86 197.1
Other non-financial assets	*18*	490.6	492.3	470.7	466.9	439.4
Total non-financial assets		69 547.9	67 967.6	74 839.2	78 530.9	86 929.2
Total assets		**125 348.2**	**123 362.2**	**131 116.5**	**135 547.4**	**144 765.3**
Liabilities						
Deposits held		371.5	371.5	371.5	371.5	371.5
Advances received		1.9	1.9	1.2	0.5	..
Borrowings	*20*	9 917.7	10 234.6	12 245.3	13 714.0	15 887.3
Payables		3 407.3	3 410.1	3 362.8	3 402.5	3 442.2
Superannuation	*7*	13 055.1	17 018.2	17 192.9	17 394.8	17 980.9
Other employee benefits	*21*	4 117.7	4 128.4	4 270.7	4 419.0	4 566.2
Other provisions		624.1	666.4	641.0	621.6	607.6
Total liabilities		**31 495.4**	**35 831.1**	**38 085.3**	**39 923.9**	**42 855.6**
Net assets		**93 852.8**	**87 531.1**	**93 031.2**	**95 623.5**	**101 909.8**
Accumulated surplus/(deficit)		38 451.6	33 996.0	34 313.4	34 601.3	35 012.9
Other reserves	*23*	55 349.2	53 483.1	58 645.8	60 950.2	66 824.9
Minority interest		52.0	52.0	72.0	72.0	72.0
Net worth	***24d***	**93 852.8**	**87 531.1**	**93 031.2**	**95 623.5**	**101 909.8**
FISCAL AGGREGATES						
Net financial worth		24 304.9	19 563.5	18 192.0	17 092.6	14 980.5
Net financial liabilities		22 234.3	26 769.0	28 996.2	30 922.3	33 759.3
Net debt		3 617.7	4 053.6	5 917.9	7 401.8	9 555.0

The accompanying notes form part of these estimated financial statements

Note:

(a) *2008-09 Budget above and its accompanying notes are based on actual opening balances at 1 July 2008 plus 2008-09 budgeted movement.*

Table 5.3: Estimated statement of cash flows for the financial year ending 30 June

($ million)

	Notes	*2008-09 Budget*	*2008-09 Revised*	*2009-10 Estimate*	*2010-11 Estimate*	*2011-12 Estimate*
Cash flows from operating activities						
Receipts						
Taxes received		13 518.4	13 015.7	13 665.3	14 424.0	14 932.5
Grants		17 555.0	17 717.9	18 336.4	19 136.2	20 045.7
Sales of goods and services [(a)]		4 441.7	5 388.1	5 389.6	5 495.3	5 582.0
Interest received		386.2	420.4	443.5	446.0	446.0
Dividends and income tax equivalent and rate equivalent receipts		533.6	486.3	554.2	434.1	521.3
Other receipts		1 326.6	1 288.4	1 345.9	1 374.8	1 379.9
Total receipts		**37 761.7**	**38 316.9**	**39 734.9**	**41 310.4**	**42 907.3**
Payments						
Payments for employees		(14 081.2)	(14 102.7)	(15 167.3)	(16 122.5)	(16 997.8)
Superannuation		(1 729.9)	(1 761.8)	(1 903.8)	(1 950.5)	(1 636.5)
Interest paid		(466.8)	(551.5)	(630.7)	(747.8)	(824.7)
Grants and subsidies		(6 432.8)	(6 755.6)	(6 597.2)	(6 488.6)	(6 490.3)
Goods and services [(a)]		(12 016.8)	(12 473.1)	(12 828.6)	(13 185.2)	(13 635.4)
Other payments		(340.1)	(380.0)	(361.8)	(372.9)	(387.6)
Total payments		**(35 067.5)**	**(36 024.8)**	**(37 489.4)**	**(38 867.5)**	**(39 972.3)**
Net cash flows from operating activities	*22b*	**2 694.2**	**2 292.1**	**2 245.5**	**2 442.9**	**2 935.0**
Cash flows from investing activities						
Purchases of non-financial assets	*19*	(2 837.9)	(3 033.4)	(3 154.6)	(3 193.0)	(3 759.0)
Sales of non-financial assets		153.8	152.2	206.1	123.8	159.8
Cash flows from investments in non-financial assets		(2 684.0)	(2 881.2)	(2 948.5)	(3 069.2)	(3 599.2)
Net cash flows from investments in financial assets for policy purposes		(1 254.4)	(1 171.4)	(1 183.9)	(881.9)	(673.6)
Net cash flows from investments in financial assets for liquidity management purposes		(22.7)	(49.9)	(117.0)	(16.6)	(62.8)
Net cash flows from investing activities		**(3 961.1)**	**(4 102.5)**	**(4 249.3)**	**(3 967.7)**	**(4 335.5)**
Cash flows from financing activities						
Advances received (net)		(0.7)	(0.7)	(0.7)	(0.7)	(0.5)
Net borrowings		1 341.7	1 997.0	2 001.8	1 461.1	1 325.7
Deposits received (net)		..	..	..	..	..
Net cash flows from financing activities		**1 341.0**	**1 996.3**	**2 001.1**	**1 460.4**	**1 325.2**
Net increase/(decrease) in cash and cash equivalents		**74.1**	**185.9**	**(2.8)**	**(64.4)**	**(75.2)**

Table 5.3: Estimated statement of cash flows for the financial year ending 30 June (continued)

($ million)

	Notes	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Cash and cash equivalents at beginning of reporting period		2 859.3	2 859.3	3 045.2	3 042.5	2 978.0
Cash and cash equivalents at end of reporting period	***22a***	**2 933.4**	**3 045.2**	**3 042.5**	**2 978.0**	**2 902.8**
FISCAL AGGREGATES						
Net cash flows from operating activities		**2 694.2**	**2 292.1**	**2 245.5**	**2 442.9**	**2 935.0**
Net cash flows from investments in non-financial assets		**(2 684.0)**	**(2 881.2)**	**(2 948.5)**	**(3 069.2)**	**(3 599.2)**
Cash surplus / (deficit)	***24e***	**10.2**	**(589.1)**	**(703.0)**	**(626.2)**	**(664.1)**

The accompanying notes form part of these estimated financial statements

Note:
(a) Inclusive of goods and services tax.

NOTES TO THE ESTIMATED FINANCIAL STATEMENTS

Note 1: Statement of significant accounting policies and forecast assumptions

The following summary sets out the significant accounting policies and forecast assumptions that have been adopted in preparing and presenting the revised estimated financial statements for the forecast period, which includes the budget year and the estimates for the three subsequent years.

Except as disclosed below, the accounting policies and assumptions applied are consistent with those of the estimated financial statements as published in the 2008-09 Budget Paper No. 4, *Statement of Finances* which should be read in conjunction with this update.

To assist users of these accounts to gain a better understanding of the terminology and key aggregates, a glossary of terms has been included at Note 26.

(A) Assumptions

The revised estimated financial statements have been prepared using the material economic and other assumptions listed below.

Material economic and other assumptions[(a)]

(per cent change)

	2008-09	*2009-10*	*2010-11*	*2011-12*
Real gross state product	1.50	2.00	2.75	3.00
Employment	0.50	0.75	1.25	1.50
Wage price index [(b)]	4.00	3.75	3.50	3.50
Consumer price index	4.00	3.00	2.75	2.50
Population [(c)]	1.50	1.50	1.40	1.40

Sources: Australian Bureau of Statistics, Department of Treasury and Finance

Notes:

(a) Year-average per cent change on previous year unless otherwise indicated. All projections apart from population are rounded to the nearest 0.25 percentage point. Projections of population are rounded to the nearest 0.1 percentage point.

(b) Total hourly rate excluding bonuses.

(c) June quarter, per cent change on previous June quarter.

(B) Compliance

This Budget Update for the general government sector comprises estimated financial statements for the 2008-09 Budget year and subsequent forecast years as required by Section 23L of the *Financial Management Act 1994*. It has not been subject to audit review.

The estimated financial statements have generally been prepared in accordance with the applicable pronouncements of the Australian Accounting Standards Board (AASB), including those standards previously referred to as Australian equivalents to international financial reporting standards.

In particular they are presented in a manner consistent with the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* that will apply to the Annual Financial Report for 2008-09. However, the prospective nature of the estimated financial statements means that some Australian Accounting Standard (AAS) disclosures are neither relevant nor practical and so these have been omitted. Because AASs do not include pronouncements that prescribe the preparation and presentation of prospective financial statements, the estimated financial statements have been prepared consistent with New Zealand financial reporting standard 42 *Prospective Financial Statements* (FRS 42). FRS 42 requires prospective financial statements to be prepared in accordance with the accounting policies expected to be used in future for reporting historically orientated general purpose financial statements. The requirements of FRS 42 have been modified to achieve consistency in the presentation of the estimated financial statements with AASB 101 *Presentation of Financial Statements.*

The information presented in the estimated financial statements takes into account government decisions and other circumstances that may have a material effect on the statements.

(C) Basis of accounting and measurement

The accrual basis of accounting has been employed in the preparation of the estimated financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

(D) Reporting entity

The Victorian general government sector includes all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. The general government sector is not a separate entity but represents a sector within the State of Victoria whole of government reporting entity.

The primary function of entities within the general government sector is to provide public services (outputs), which are mainly non-market in nature, for the collective consumption of the community, and involve the transfer or redistribution of income and are financed mainly through taxes and other compulsory levies. These entities are not-for-profit entities and apply, where appropriate, those paragraphs of accounting standards applicable to not-for-profit entities.

(E) Basis of consolidation

The estimated financial statements present the consolidated assets and liabilities of all reporting entities in the Victorian general government (GG) sector and their revenues, gains and expenses for the respective period, in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting* and AASB 127 *Consolidated and Separate Financial Statements.*

Other sectors of government, that is, the Public Financial Corporations (PFC) and Public Non-Financial Corporations (PNFC) sectors, are accounted for as an equity investment measured at the government's proportional share of the carrying amount of net assets of the PNFC sector and PFC sector entities before consolidation eliminations. Where the carrying amount of the entity's net assets before consolidation eliminations is less than zero the amount is not included.

(F) Prospective accounting changes

Service Concessions

In February 2007, the Australian Accounting Standards Board (AASB) approved Interpretation 12 *Service Concession Arrangements* effective for annual reporting periods commencing on, or after, 1 January 2008. Interpretation 12 is only applicable to private sector operators and explicitly excludes providing guidance on the accounting to be applied by public sector grantors.

To address how public sector grantors should account for service concession arrangements, the AASB constituted a panel to provide advice. That panel made its recommendations to the Board on 14 December 2007. The AASB decided that:

(a) the requirements of Interpretation 12 are not obligatory for public sector grantors; however

(b) grantors are required to consider Interpretation 12 when developing their accounting policy under the hierarchy for selecting accounting policies set out in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The International Public Sector Accounting Standards Board (IPSASB) is currently considering responses to a consultation paper that it issued for comment on accounting by grantors of service concession arrangements, the AASB being one of the respondents.

As a result of the above and the continuing uncertainty and lack of applicable accounting guidance on the recognition and measurement by the State of assets arising from some service concession arrangements, there has been no change in policy and those assets are currently not recognised.

Land Under Roads

A new standard AASB 1051 *Land Under Roads* provides the option to recognise or not recognise land under roads acquired before the end of the first reporting period ending on or after 31 December 2007 (i.e. land under roads acquired up to 30 June 2008). Land acquired subsequently must initially be recognised at cost and may subsequently be measured at fair value.

As provided in this standard the State has elected not to recognise land under roads existing prior to 1 July 2008.

Carrying Value of Infrastructure Assets within the PNFC Sectors

The infrastructure assets of certain entities within the PNFC sector are recorded on the basis of historical cost, consistent with the basis applied in the *2008-09 Budget.* Prospectively from the 2008-09 *Annual Financial Report*, these assets are to be measured at fair value, where such fair value can be reliably measured, consistent with the requirements of AASB 1049. The impacts of the proposed change in measurement basis on the financial position and operating result of the sector are not yet known.

Borrowing Costs

AASB 123 *Borrowing Costs* (re-issued June 2007) requires that for financial reports commencing on or after 1 January 2009, borrowing costs applicable to qualifying assets be capitalised. At present, consistent with Government Financial Statistics (GFS), all borrowing costs are expensed and this policy is reflected in future assumptions. In September 2008, the International Public Sector Accounting Standards Board issued an exposure draft of an accounting standard retaining the choice of expensing borrowing costs. Whether the AASB will retain the AASB 123 requirement for the public sector to capitalise borrowing costs and, if so, the impact on the future financial position or operating results of such a policy, are unknown.

AASB 101 Presentation of Financial Statements

AASB 101 was reissued in September 2007. The reissued version of AASB 101 is effective from the 2009-10 financial year and will require the presentation of a new statement of changes in equity. The standard relates only to presentation and does not affect the recognition and measurement of any item. As there are no significant transactions with owners for the general government sector, the disclosures that will be presented by this statement will be limited.

(G) Revised forecast assumptions

Estimates of forecasts are based on the latest data and economic assumptions at the time the forecasts are prepared. The revised forecasts for income and measurement of liabilities in this update are based on latest known data and revised economic assumptions compared to those contained in the Budget.

(H) Rounding

All amounts in the estimated financial statements have been rounded to the nearest hundred thousand dollars unless otherwise stated. Figures in these estimated financial statements may not add due to rounding.

Note 2: Taxation

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Taxes on employers' payroll and labour force	**3 963.2**	**4 012.9**	**4 230.4**	**4 466.9**	**4 724.1**
Taxes on property					
Taxes on immovable property					
Land tax	1 049.8	1 176.4	1 158.3	1 130.8	1 104.0
Congestion levy	39.2	42.1	43.5	44.8	46.0
Metropolitan improvement levy	105.4	104.5	109.1	112.9	112.9
Property owner contributions to fire brigades	42.2	42.2	43.7	45.2	46.4
Total taxes on immovable property	**1 236.6**	**1 365.3**	**1 354.6**	**1 333.8**	**1 309.3**
Financial and capital transactions					
Land transfer duty	3 736.9	3 127.5	3 309.1	3 707.7	3 782.7
Growth areas infrastructure contribution	..	..	76.5	51.3	46.8
Other property duties	10.2	8.6	8.6	8.6	8.6
Financial accommodation levy	32.1	32.1	49.5	61.0	67.8
Total financial and capital transactions	**3 779.1**	**3 168.1**	**3 443.7**	**3 828.6**	**3 905.9**
Total taxes on property	**5 015.7**	**4 533.4**	**4 798.2**	**5 162.4**	**5 215.2**
Taxes on the provision of goods and services					
Gambling taxes					
Private lotteries	354.8	349.1	371.6	385.2	399.0
Electronic gaming machines	1 025.0	1 012.4	1 053.4	1 102.3	1 135.8
Casino	135.0	131.3	141.2	146.7	157.8
Racing	129.4	130.8	136.9	143.8	151.0
Other	7.7	6.6	7.2	7.7	8.1
Total gambling taxes	**1 651.9**	**1 630.2**	**1 710.3**	**1 785.7**	**1 851.6**
Levies on statutory corporations	**73.7**	**73.7**	**73.7**	**73.7**	**73.7**
Taxes on insurance	**1 207.1**	**1 212.3**	**1 259.3**	**1 327.9**	**1 380.1**
Total taxes on the provision of goods and services	**2 932.7**	**2 916.2**	**3 043.3**	**3 187.3**	**3 305.4**
Taxes on the use of goods and performance of activities					
Motor vehicle taxes					
Vehicle registration fees	829.4	831.7	864.9	915.5	966.3
Duty on vehicle registrations and transfers	581.5	525.6	521.4	548.6	580.9
Total motor vehicle taxes	**1 410.9**	**1 357.3**	**1 386.3**	**1 464.1**	**1 547.1**
Franchise taxes	7.8	7.9	8.1	8.3	8.5
Other	52.5	52.5	41.1	35.3	32.3
Total taxes on the use of goods and performance of activities	**1 471.2**	**1 417.6**	**1 435.5**	**1 507.7**	**1 588.0**
Total taxation	**13 382.9**	**12 880.1**	**13 507.4**	**14 324.2**	**14 832.7**

Note 3: Dividends and income tax equivalent and rate equivalent revenue

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Dividends	421.1	403.3	428.6	302.5	376.0
Income tax equivalent revenue	246.5	95.3	122.2	132.5	326.6
Local government rate equivalent revenue	2.3	2.3	2.4	2.4	2.4
Total dividends and income tax equivalent and rate equivalent revenue	**669.9**	**501.0**	**553.1**	**437.4**	**705.0**

Note 4: Sales of goods and services

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Motor vehicle regulatory fees	107.8	107.8	109.5	111.3	112.7
Other regulatory fees	288.0	300.8	295.1	292.1	287.8
Sale of goods	1.8	1.9	1.9	1.8	1.8
Provision of services	2 867.5	3 305.5	3 474.3	3 466.3	3 554.3
Rental	39.3	43.3	44.7	45.3	45.8
Refunds and reimbursements	51.3	51.3	52.4	53.5	54.7
Inter-sector capital asset charge	978.8	978.8	1 064.6	1 071.4	1 064.6
Total sales of goods and services	**4 334.5**	**4 789.3**	**5 042.5**	**5 041.7**	**5 121.7**

Note 5: Grants

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Current grants					
Current grants from the Commonwealth					
General purpose grants	10 281.4	9 939.1	10 553.0	11 219.8	11 815.0
Specific purpose grants for on-passing	1 967.5	1 978.3	2 079.5	2 193.3	2 314.4
Other specific purpose grants	4 657.0	5 007.6	4 968.3	5 036.1	5 234.3
Total	16 905.9	16 925.0	17 600.8	18 449.2	19 363.6
Other contributions and grants	6.0	47.5	7.6	7.6	7.6
Total current grants	**16 911.9**	**16 972.6**	**17 608.4**	**18 456.9**	**19 371.2**
Capital grants					
Capital grants from the Commonwealth					
Specific purpose grants for on-passing	150.4	156.9	159.0	164.9	171.1
Other specific purpose grants	383.0	476.2	459.3	413.0	414.9
Total	533.3	633.0	618.2	577.9	586.0
Other contributions and grants	109.8	112.3	109.8	101.4	88.5
Total capital grants	**643.2**	**745.4**	**728.1**	**679.3**	**674.5**
Total grants	**17 555.0**	**17 717.9**	**18 336.4**	**19 136.2**	**20 045.7**

Note 6: Other current revenue

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Fair value of assets received free of charge or for nominal consideration	21.8	211.7	50.7	50.7	0.7
Fines	492.2	469.2	534.8	562.4	563.5
Royalties	42.0	42.0	42.5	42.5	42.5
Donations and gifts	175.7	202.6	226.7	213.5	211.2
Other non-property rental	15.1	15.4	15.3	15.6	15.7
Other miscellaneous income	718.8	704.9	653.6	665.6	670.9
Total other current revenue	**1 465.6**	**1 645.8**	**1 523.6**	**1 550.3**	**1 504.5**

Note 7: Superannuation

The liability for employee superannuation benefits in the general government sector is the responsibility of the State's public sector superannuation funds. These funds are not consolidated in the estimated financial statements as they are not controlled by the State. However, the major proportion of the superannuation liability is the responsibility of the State and is recognised accordingly.

(a) Superannuation expense recognised in the operating statement

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Defined benefit plans					
Current service cost [(a)]	574.8	579.4	557.7	549.3	538.0
Interest cost [(a)]	1 821.0	1 867.6	1 896.4	1 923.7	1 946.3
Expected return on plan assets (net of expenses) [(a)]	(1 302.4)	(1 257.9)	(1 217.3)	(1 233.9)	(1 227.1)
Amortisation of past service cost [(a)(b)]	(14.5)	(14.5)	(10.2)	..	..
Actuarial (gains)/losses [(c)]	..	3 877.3	..	..	..
Total expense recognised in respect of defined benefit plans	**1 078.9**	**5 051.8**	**1 226.6**	**1 239.1**	**1 257.2**
Defined contribution plans					
Employer contributions to defined contribution plans [(a)]	731.5	753.5	802.0	861.2	911.1
Other (including pensions) [(a)]	47.9	47.9	49.9	52.1	54.3
Total expense recognised in respect of defined contribution plans	**779.3**	**801.4**	**851.9**	**913.3**	**965.4**
Total superannuation expense recognised in operating statement	**1 858.2**	**5 853.2**	**2 078.5**	**2 152.4**	**2 222.6**

Notes:

(a) Superannuation expense from transactions.

(b) Past service cost arises due to a change in benefits payable and must be amortised over the period until the benefits become vested. This is expected to occur by 2009-10.

(c) Superannuation expense from other economic flows.

(b) Reconciliation of the present value of the defined benefit obligation

($ million)	2008-09 Budget (a)	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Opening balance of defined benefit obligation	**30 459.1**	**29 878.9**	**33 421.9**	**33 882.3**	**34 270.1**
Current service cost	574.8	579.4	557.7	549.3	538.0
Interest cost	1 821.0	1 867.6	1 896.4	1 923.7	1 946.3
Contributions by plan participants	211.2	215.3	203.4	191.6	180.1
Actuarial (gains)/losses	..	3 124.3	..	..	..
Benefits paid	(2 084.2)	(2 243.7)	(2 197.0)	(2 276.7)	(2 430.6)
Closing balance of defined benefit obligation	**30 981.8**	**33 421.8**	**33 882.3**	**34 270.1**	**34 503.8**

Note:
(a) 2008-09 Budget above is based on actual opening balances at 1 July 2008 plus 2008-09 budgeted movement.

(c) Reconciliation of the fair value of superannuation plan assets

($ million)	2008-09 Budget (a)	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Opening balance of plan assets	**17 544.7**	**16 976.8**	**16 413.9**	**16 689.4**	**16 875.3**
Expected return on plan assets	1 302.4	1 257.9	1 217.3	1 233.9	1 227.1
Actuarial gains/(losses)	..	(753.0)	..	..	..
Employer contributions	962.9	960.5	1 051.8	1 037.2	671.2
Contributions by plan participants	211.2	215.3	203.4	191.6	180.1
Benefits paid (including tax paid)	(2 084.2)	(2 243.7)	(2 197.0)	(2 276.7)	(2 430.6)
Closing balance of plan assets	**17 937.0**	**16 413.9**	**16 689.4**	**16 875.3**	**16 523.0**

Note:
(a) 2008-09 Budget above is based on actual opening balances at 1 July 2008 plus 2008-09 budgeted movement.

(d) Reconciliation of the superannuation liabilities

($ million)

	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
ESSS (including SSF)					
Defined benefit obligation	28 523.0	30 553.8	30 872.0	31 121.6	31 290.4
Tax liability [(a)]	766.2	1 232.0	1 340.9	1 457.3	1 500.6
Plan assets	(16 554.5)	(15 125.5)	(15 375.7)	(15 547.7)	(15 180.3)
Unrecognised past service cost [(b)]	10.2	10.2	..	..	..
Net liability/(asset)	**12 744.9**	**16 670.4**	**16 837.2**	**17 031.2**	**17 610.6**
Other funds [(c)]					
Defined benefit obligation	1 691.6	1 629.9	1 665.9	1 690.1	1 713.8
Tax liability [(a)]	1.2	6.3	3.5	1.1	(1.0)
Plan assets	(1 382.5)	(1 288.4)	(1 313.7)	(1 327.6)	(1 342.7)
Unrecognised past service cost	..	..	..	..	..
Net liability/(asset)	**310.3**	**347.8**	**355.7**	**363.7**	**370.2**
Total superannuation					
Defined benefit obligation	30 214.6	32 183.6	32 537.9	32 811.7	33 004.3
Tax liability	767.4	1 238.2	1 344.4	1 458.4	1 499.6
Plan assets	(17 937.0)	(16 413.9)	(16 689.4)	(16 875.3)	(16 523.0)
Unrecognised past service cost	10.2	10.2	..	..	..
Superannuation liability	**13 055.2**	**17 018.2**	**17 192.9**	**17 394.8**	**17 980.8**
Represented by:					
Current liability	535.0	535.0	544.0	201.4	829.9
Non-current liability	12 520.1	16 483.2	16 648.9	17 193.5	17 151.0

Notes:

(a) Tax liability represents the present value of future tax payments on investment income from assets supporting the accrued benefits and the present value of future tax payments on the expected employer contributions (if any) to fund these accrued benefits.

(b) Past service cost arises due to a change in benefits payable. This cost is recognised as an expense over the period until the benefits become vested. Unrecognised past service cost represents the amount of past service cost yet to be recognised in the operating statement.

(c) Other funds include constitutionally protected schemes, the Parliamentary Contributory Superannuation Fund and the State's share of liabilities of the defined benefit scheme of the Health Super Fund.

Note 8: Depreciation

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Depreciation					
Buildings [(a)]	452.2	446.4	481.5	526.0	581.0
Plant, equipment and infrastructure systems	636.9	620.1	637.6	662.0	674.3
Road networks	395.0	395.0	406.2	459.3	486.5
Other assets	11.5	11.5	11.5	11.6	11.6
Leased plant and equipment	41.5	36.2	36.3	31.4	26.8
Leasehold buildings	51.1	60.1	63.5	64.3	81.4
Intangible produced assets [(b)]	21.2	27.0	38.4	32.7	40.3
Total depreciation	**1 609.4**	**1 596.2**	**1 675.0**	**1 787.3**	**1 902.0**

Notes:
(a) Includes estimated depreciation on amounts not yet allocated to projects in 2009-10 to 2011-12.
(b) Amortisation of intangible non-produced assets is included under other economic flows

Note 9: Interest expense

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Interest on long-term interest-bearing liabilities	343.9	385.3	498.5	618.1	697.3
Interest on short-term interest-bearing liabilities	36.5	82.1	36.1	36.5	36.5
Finance charges on finance leases	86.7	84.3	96.4	93.4	91.1
Discount interest on payables	32.3	13.6	8.9	7.7	7.4
Total interest expense	**499.4**	**565.4**	**639.8**	**755.8**	**832.4**

Note 10: Grants and other transfers

($ million)

	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Current grants expense					
Commonwealth Government	72.2	72.2	74.7	70.7	70.7
Local Government on-passing	581.0	605.8	611.6	610.6	611.2
Private sector and not for profit on-passing	2 986.7	3 070.2	3 176.9	3 232.4	3 266.4
Other private sector and not for profit	447.7	599.2	532.8	412.2	414.5
Grants within the Victorian Government	1 960.4	2 058.8	2 020.0	2 033.0	1 989.2
Grants to other state governments	15.1	15.1	14.0	13.8	13.9
Total current grants and other transfers	**6 063.0**	**6 421.2**	**6 429.9**	**6 372.7**	**6 365.9**
Capital grants expense					
Commonwealth Government	..	..	..	..	..
Local Government on-passing	8.7	6.6	9.8	6.8	6.8
Private sector and not for profit on-passing	143.7	149.8	112.4	96.3	105.3
Other private sector and not for profit	137.3	131.0	36.0	4.0	4.0
Grants within the Victorian Government	27.6	27.6	11.0	10.5	10.1
Other grants	59.2	58.8	..	..	..
Total capital grants and other transfers	**376.4**	**373.8**	**169.1**	**117.7**	**126.2**
Total grants and other transfers	**6 439.4**	**6 795.0**	**6 599.1**	**6 490.4**	**6 492.1**

Note 11: Total expenses by government purpose classification

($ million)

	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
General public services [(a)]	1 740.5	266.3	1 105.8	1 573.3	2 294.4
Public order and safety	4 192.9	4 287.4	4 252.4	4 367.3	4 407.1
Education	9 694.2	9 946.5	10 229.4	10 485.8	10 777.1
Health	9 836.3	8 202.9	8 262.1	8 462.9	8 673.0
Social security and welfare	2 896.3	4 917.5	5 004.8	5 132.3	5 190.9
Housing and community amenities	1 963.5	3 067.5	3 069.0	3 273.3	3 456.5
Recreation and culture	841.6	784.8	724.7	705.4	699.6
Fuel and energy	83.2	19.9	20.3	21.2	22.3
Agriculture, forestry, fishing, and hunting	361.0	486.6	435.7	397.6	394.0
Mining, manufacturing, and construction	27.0	25.2	24.3	21.5	20.5
Transport and communications	3 877.8	3 950.3	4 100.4	4 236.2	4 268.7
Other economic affairs	456.5	431.7	453.4	402.5	370.3
Other purposes [(a)]	1 011.9	1 202.0	1 346.1	1 461.0	1 565.5
Total expenses by government purpose classification [(b)]	**36 982.4**	**37 588.5**	**39 028.3**	**40 540.3**	**42 139.9**

Notes:

(a) 2008-09 Budget for public debt transactions has been reclassified from General public services to Other purposes to align with GFS classifications.

(b) Allocations have been determined using ratios based on historical data.

Note 12: Other gains/(losses) from other economic flows

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Net gain/(loss) from revaluation of biological assets	8.4	8.4	8.4	8.4	8.4
Net (increase)/decrease in provision for doubtful receivables	(147.6)	(130.7)	(142.1)	(154.1)	(154.1)
Other gains/(losses)	(11.8)	(149.9)	0.1	0.1	0.1
Total other gains/(losses) from other economic flows	**(151.1)**	**(272.2)**	**(133.6)**	**(145.6)**	**(145.6)**

Note 13: Receivables

($ million)	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Contractual					
Sales of goods and services	740.5	736.9	746.4	754.2	763.3
Accrued investment income	218.5	96.6	95.5	98.9	282.6
Other receivables	350.1	378.7	392.3	403.7	379.9
Provision for doubtful receivables	(50.6)	(50.5)	(50.6)	(50.7)	(50.7)
Total contractual	**1 258.5**	**1 161.7**	**1 183.6**	**1 206.0**	**1 375.0**
Statutory					
Taxes receivables	688.9	688.9	631.1	631.3	631.5
Fines and regulatory fees	694.8	694.8	748.7	802.6	856.5
GST input tax credits recoverable	269.8	266.7	267.0	267.7	268.5
Provision for doubtful receivables	(349.3)	(332.3)	(474.2)	(628.1)	(781.9)
Total statutory	**1 304.1**	**1 318.0**	**1 172.6**	**1 073.5**	**974.5**
Total receivables	**2 562.7**	**2 479.8**	**2 356.1**	**2 279.6**	**2 349.6**

Note 14: Reconciliation of net gain on equity investments in other sector entities at proportional share of net assets

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Balance of investment in PNFC and PFC sectors at beginning of period	44 857.1	44 857.1	46 332.5	47 188.3	48 014.9
Net contributions to other sectors by owner	1 275.0	1 186.1	1 193.7	877.1	670.7
Revaluation gain/ (loss) for period [(a)]	407.2	289.2	(338.0)	(50.5)	54.2
Balance of investment in PNFC and PFC sectors at end of period	**46 539.3**	**46 332.5**	**47 188.3**	**48 014.9**	**48 739.8**

Note:

(a) Revaluation gain/loss reflects the movement in net assets of the PNFC and PFC sectors, other than transactions with owner, as owner. This movement includes the impact of movements in the net result (adjusted for dividends paid) and revaluations of property, plant and equipment.

Note 15: Net acquisition of non-financial assets

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Purchases of non-financial assets	2 837.9	3 033.4	3 154.6	3 193.0	3 759.0
Less: Sales of non-financial assets	(153.8)	(152.2)	(206.1)	(123.8)	(159.8)
Less: Depreciation	(1 609.4)	(1 596.2)	(1 675.0)	(1 787.3)	(1 902.0)
Plus: Change in inventories	1.4	1.0	0.3	(0.3)	(0.3)
Plus: Other movements in non-financial assets	193.2	152.4	50.2	50.2	840.3
Total net acquisition of non-financial assets	**1 269.2**	**1 438.4**	**1 324.0**	**1 331.8**	**2 537.2**

Note 16: Land, buildings, infrastructure, plant and equipment

(a) Total land, buildings, infrastructure, plant and equipment[(a)]

($ million)	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Buildings (written down value)	17 845.3	17 195.9	18 882.9	21 006.0	25 180.4
Land and national parks	21 872.6	20 598.9	22 931.1	24 123.6	25 282.9
Infrastructure systems (written down value)	532.0	601.9	726.1	798.8	795.5
Plant, equipment and vehicles (written down value)	2 024.5	2 146.4	2 211.7	2 129.2	1 937.3
Roads (written down value)	16 934.9	17 084.6	19 194.1	19 253.1	21 513.0
Earthworks	5 245.8	5 245.8	5 816.1	5 816.1	6 833.1
Cultural assets (written down value)	4 309.0	4 309.0	4 313.2	4 644.1	4 654.9
Total land, buildings, infrastructure, plant and equipment	**68 764.0**	**67 182.4**	**74 075.2**	**77 771.0**	**86 197.1**

Note:

(a) Notes 16 (b), (d) and (e) incorporate increases from 2009-10 due to the cyclic revaluations required under Financial Reporting Directions of the Minister for Finance.

(b) Land and buildings

($ million)	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Buildings[(a)]	19 800.6	19 186.6	21 369.3	24 024.4	28 804.8
Accumulated depreciation	(1 955.3)	(1 990.7)	(2 486.4)	(3 018.4)	(3 624.4)
Buildings (written down value)	**17 845.3**	**17 195.9**	**18 882.9**	**21 006.0**	**25 180.4**
Land	19 732.0	18 458.4	20 526.2	21 523.4	22 682.3
National Parks and other 'land only' holdings	2 140.5	2 140.5	2 404.9	2 600.3	2 600.6
Land and national parks	**21 872.6**	**20 598.9**	**22 931.1**	**24 123.6**	**25 282.9**
Total land and buildings	**39 717.9**	**37 794.8**	**41 814.0**	**45 129.7**	**50 463.2**

Note:

(a) Includes amounts not yet allocated to projects in 2009-10 to 2011-12.

(c) Plant, equipment and vehicles and infrastructure systems

($ million)

	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Infrastructure systems	578.9	647.5	799.5	900.7	926.1
Accumulated depreciation	(46.9)	(45.6)	(73.4)	(101.9)	(130.6)
Infrastructure systems (written down value)	**532.0**	**601.9**	**726.1**	**798.8**	**795.5**
Plant, equipment and vehicles	4 874.0	4 975.5	5 520.2	5 894.0	6 164.7
Accumulated depreciation	(2 954.8)	(2 934.5)	(3 377.5)	(3 802.4)	(4 238.3)
Leased plant, equipment and vehicles	188.5	188.5	188.5	188.5	188.5
Accumulated depreciation	(83.2)	(83.2)	(119.5)	(150.9)	(177.7)
Plant, equipment and vehicles (written down value)	**2 024.5**	**2 146.4**	**2 211.7**	**2 129.2**	**1 937.3**
Total plant, equipment and vehicles, and infrastructure systems	**2 556.5**	**2 748.2**	**2 937.8**	**2 928.0**	**2 732.8**

(d) Road networks and earthworks

($ million)

	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Roads[(a)]	20 067.6	20 205.4	23 857.4	24 037.0	26 444.8
Accumulated depreciation	(7 856.9)	(7 856.9)	(9 043.5)	(9 405.1)	(9 791.2)
Road infrastructure	7 238.7	7 250.6	7 243.4	7 582.1	7 920.8
Accumulated depreciation	(2 514.4)	(2 514.4)	(2 863.2)	(2 961.0)	(3 061.4)
Roads (written down value)	**16 934.9**	**17 084.6**	**19 194.1**	**19 253.1**	**21 513.0**
Earthworks	**5 245.8**	**5 245.8**	**5 816.1**	**5 816.1**	**6 833.1**
Total road networks and earthworks	**22 180.7**	**22 330.4**	**25 010.2**	**25 069.2**	**28 346.1**

Note:

(a) The increase in 2009-10 is due to the cyclic revaluations required under Financial Reporting Directions of the Minister for Finance.

(e) Cultural assets

($ million)

	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Cultural assets	4 411.4	4 411.4	4 424.7	4 765.2	4 785.6
Accumulated depreciation	(102.4)	(102.4)	(111.5)	(121.1)	(130.7)
Total cultural assets	**4 309.0**	**4 309.0**	**4 313.2**	**4 644.1**	**4 654.9**

Cultural assets comprise non-current physical assets intended to be preserved because of their unique historical, cultural or environmental attributes, such as the Royal Botanic Gardens, Government House, Parliament House, historic houses, monuments, museum exhibits, art collections and archival collections.

Note 17: Reconciliation of movements in land, buildings, infrastructure, plant and equipment

($ million)

	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Carrying amount at the start of the year [(a)]	65 224.2	65 224.2	67 182.4	74 075.2	77 771.0
Additions [(b)]	3 060.3	3 207.5	3 187.4	3 212.6	4 584.6
Disposals at written down value	(198.9)	(210.3)	(158.7)	(117.1)	(117.3)
Revaluations [(c)]	2 281.5	545.2	5 499.6	2 353.8	5 819.3
Assets reclassified	(16.0)	(16.0)	..	..	..
Depreciation expense	(1 587.1)	(1 568.1)	(1 635.5)	(1 753.6)	(1 860.6)
Carrying amount at the end of the year	**68 764.0**	**67 182.4**	**74 075.2**	**77 771.0**	**86 197.1**

Notes:

(a) Property, plant and equipment comprises land and buildings, infrastructure systems, plant, equipment, vehicles, road networks and cultural assets.

(b) Includes assets acquired under finance lease arrangements.

(c) Increases from 2009-10 are due to the cyclic revaluations required under Financial Reporting Directions of the Minister for Finance.

Note 18: Other non-financial assets

($ million)

	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Intangibles produced assets	461.1	467.9	480.2	505.0	513.8
Accumulated depreciation	(232.3)	(238.0)	(276.8)	(309.2)	(349.1)
Intangibles non-produced assets	34.0	34.0	34.0	34.0	34.0
Accumulated depreciation	(16.9)	(16.9)	(16.9)	(16.9)	(16.9)
Total intangibles	**245.9**	**247.0**	**220.5**	**213.0**	**181.8**
Investment properties	22.5	22.5	22.5	22.5	22.5
Biological assets [(a)]	42.8	42.8	51.2	59.6	68.0
Other assets	179.5	180.0	176.6	171.9	167.1
Total other non-financial assets	**490.6**	**492.3**	**470.7**	**466.9**	**439.4**

Note:

(a) The majority of biological assets comprises of commercial forests and also includes any living animal or plant or agricultural produce, which is the harvested product of biological assets.

Note 19: Purchase of non-financial assets classified by government purpose classification

($ million)

	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
General public services	192.4	298.6	326.4	331.0	302.2
Public order and safety	273.6	485.9	454.1	393.1	362.0
Education	849.6	869.0	696.6	418.9	345.8
Health	564.6	499.0	458.3	245.4	113.1
Social security and welfare	79.4	137.0	59.6	57.5	38.0
Housing and community amenities	361.0	202.8	254.8	195.8	129.7
Recreation and culture	45.5	29.9	5.3	11.0	14.6
Fuel and energy	3.6	0.6	0.6	0.6	0.6
Agriculture, forestry, fishing, and hunting	60.8	42.0	98.2	40.7	25.9
Mining, manufacturing, and construction	..	3.0	5.6	1.9	1.8
Transport and communications	825.2	949.9	991.2	634.7	399.3
Other economic affairs	26.2	17.2	18.1	5.1	4.0
Other purposes	1.8	1.8	1.8	1.8	1.8
Not allocated by purpose [(a)]	(445.9)	(503.4)	(216.0)	855.4	2 020.2
Total purchase of non-financial assets [(b)]	**2 837.9**	**3 033.4**	**3 154.6**	**3 193.0**	**3 759.0**

Notes:

(a) Estimated amount available to be allocated to specific departments and projects. This includes an allowance for departmental underspending in 2008-09 which may be subject to carryover in 2009-10 and provision for the re-phasing of a number of capital projects.

(b) Allocations have been determined using ratios based on historical data.

Note 20: Borrowings

($ million)

	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Current borrowings					
Domestic borrowings	1 489.0	226.0	224.5	223.0	221.5
Finance lease liabilities	67.1	57.7	56.3	57.3	27.7
Total current borrowings	**1 556.2**	**283.7**	**280.8**	**280.3**	**249.2**
Non-current borrowings					
Domestic borrowings	6 408.6	8 220.0	10 320.8	11 878.9	13 302.3
Finance lease liabilities	1 952.9	1 730.9	1 643.7	1 554.9	2 335.7
Total non-current borrowings	**8 361.5**	**9 950.9**	**11 964.5**	**13 433.7**	**15 638.0**
Total borrowings	**9 917.7**	**10 234.6**	**12 245.3**	**13 714.0**	**15 887.3**

Note 21: Other employee benefits

($ million)	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Current					
Accrued salaries and wages [(a)]	1 363.9	1 362.5	1 394.6	1 428.0	1 460.9
Long service leave	2 331.0	2 330.2	2 398.6	2 471.5	2 542.7
Total current employee benefits	**3 695.0**	**3 692.7**	**3 793.2**	**3 899.5**	**4 003.6**
Non-current					
Accrued salaries and wages [(a)]	..	..	..	..	..
Long service leave	422.7	435.7	477.4	519.5	562.6
Total non-current employee benefits	**422.7**	**435.7**	**477.4**	**519.5**	**562.6**
Total employee benefits	**4 117.7**	**4 128.4**	**4 270.7**	**4 419.0**	**4 566.2**

Note:
(a) Includes accrued annual leave, payroll tax and other similar on costs.

Current employee benefits are defined in AASB 101 *Presentation of Financial Statements*, as the amount for which the State of Victoria does not have an unconditional right to defer settlement beyond 12 months, entirely in relation to long service leave.

Note 22: Cash flow information

(a) Reconciliation of cash and cash equivalents

($ million)	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Cash	1 220.8	2 017.6	2 005.7	2 008.4	2 357.8
Deposits at call	1 828.3	1 030.3	1 039.4	972.3	547.6
Cash and cash equivalents	**3 049.1**	**3 047.9**	**3 045.1**	**2 980.7**	**2 905.4**
Bank overdraft	(115.6)	(2.6)	(2.6)	(2.6)	(2.6)
Balances as per cash flow statement	**2 933.4**	**3 045.2**	**3 042.5**	**2 978.0**	**2 902.8**

(b) Reconciliation of net result to net cash flows from operating activities

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Net result	716.9	(3 740.7)	323.6	288.4	410.1
Non-cash movements					
Depreciation	1 609.4	1 596.2	1 675.0	1 787.3	1 902.0
Revaluation of investments	(0.6)	149.5	(0.5)	(0.6)	(0.7)
Assets (received) / provided free of charge	38.2	(152.4)	(50.2)	(50.2)	(0.2)
Revaluation of assets	3.5	(8.4)	(8.4)	(8.4)	(8.4)
Discount/premium on other financial assets/ borrowings	7.5	13.5	8.8	7.7	7.4
Movements included in investing and financing activities					
Net gain from disposal of property, plant and equipment	(39.9)	(26.4)	(44.3)	(3.7)	(7.3)
Movements in assets and liabilities					
Increase/(decrease) in provision for doubtful debts	147.1	130.0	141.9	153.9	153.9
Increase/(decrease) in payables	(85.8)	(77.9)	(51.1)	(60.0)	(60.0)
Increase/(decrease) in employee benefits	144.4	155.1	142.3	148.4	147.1
Increase/(decrease) in superannuation	128.3	4 091.4	174.7	201.9	586.0
Increase/(decrease) in other provisions	(41.2)	1.4	(25.4)	(19.3)	(14.1)
Increase/(decrease) in other liabilities	122.6	117.4	(128.1)	(32.4)	(32.3)
(Increase)/decrease in receivables	(63.8)	36.2	83.8	24.8	(153.9)
(Increase)/decrease in other non-financial assets	7.5	7.3	3.4	5.2	5.3
Net cash flows from operating activities	**2 694.2**	**2 292.1**	**2 245.5**	**2 442.9**	**2 935.0**

Note 23: Reserves

($ million)	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Property plant and equipment revaluation reserve	30 753.2	29 005.0	34 504.7	36 858.6	42 678.1
Available-for-sale investments revaluation reserve	3.0	3.0	3.0	3.0	3.0
Revaluation reserve for investments in PFC and PNFC entities	23 814.3	23 696.3	23 358.4	23 307.9	23 362.1
Other reserves	778.7	778.7	779.7	780.7	781.7
Total reserves	**55 349.2**	**53 483.1**	**58 645.8**	**60 950.2**	**66 824.9**

Note 24: Reconciliations

(a) Reconciliation to GFS Net operating balance[(a)]

($ million)

	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Net result from transactions – net operating balance	827.5	381.8	412.4	429.7	547.7
Convergence differences	..	..	..	..	..
GFS Net operating balance	**827.5**	**381.8**	**412.4**	**429.7**	**547.7**

Note:

(a) Determined in accordance with the ABS GFS Manual.

(b) Reconciliation to GFS Total change in net worth[(a)]

($ million

	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Total change in net worth	3 407.1	(2 914.6)	5 480.1	2 592.3	6 286.3
Convergence differences:					
Relating to net operating balance (from Note 24(a) above)	..	..	..	..	..
Relating to other economic flows:					
Doubtful receivables [(b)]	147.1	130.0	141.9	153.9	153.9
Net gain on equity investments in other sector entities measured at proportional share of net assets/(liabilities) [(c)]	20.0	51.3	29.5	32.0	35.0
Total convergence differences	167.1	181.2	171.4	185.9	189.0
GFS Total change in net worth	**3 574.2**	**(2 733.4)**	**5 651.5**	**2 778.2**	**6 475.2**

Notes:

(a) Determined in accordance with the ABS GFS Manual.

(b) The convergence difference arises because GFS does not recognise doubtful receivables, whereas the operating statement recognises it and classifies doubtful receivables as other economic flows.

(c) The convergence difference arises because the amount of net assets (and therefore the change in carrying amount of net assets) of other sector entities determined under GFS principles and rules differs from the carrying amount of net assets (and therefore the change in carrying amount of net assets) of the subsidiaries recognised in the balance sheet. The difference is therefore the total change in net worth impacting either through the net operating balance or other economic flows. The components are doubtful receivables in the PNFC and PFC sectors, and the change in future tax benefits and future tax liabilities in those sectors.

(c) Reconciliation to GFS Net lending/(borrowing)[(a)]

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Net lending/(borrowing)	(441.7)	(1 056.6)	(911.7)	(902.1)	(1 989.5)
Convergence differences	..	..	..	..	..
GFS Net lending/ (borrowing)	**(441.7)**	**(1 056.6)**	**(911.7)**	**(902.1)**	**(1 989.5)**

Note:

(a) Determined in accordance with the ABS GFS Manual

(d) Reconciliation to GFS Net worth[(a)]

($ million)	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Net worth	93 852.8	87 531.1	93 031.2	95 623.5	101 909.8
Convergence differences:					
Minority interest	(52.0)	(52.0)	(72.0)	(72.0)	(72.0)
Accounts receivable – provision for doubtful debts[(b)]	400.0	382.8	524.8	678.7	832.6
Investments in other sector entities[(c)]					
Doubtful receivables of the PNFC sector	20.7	21.3	22.4	23.5	24.7
Doubtful receivables of the PFC sector	38.4	38.4	38.4	38.4	38.4
Future tax benefits of the PNFC sector	(121.8)	(137.6)	(155.0)	(168.8)	(176.1)
Future tax benefits of the PFC sector	(846.1)	(846.1)	(846.1)	(846.1)	(846.1)
Deferred tax liability of the PNFC sector	2 011.7	2 058.2	2 104.1	2 148.7	2 189.8
Deferred tax liability of the PFC sector	1.1	1.1	1.1	1.1	1.1
Total adjustments for investments in other sector entities	1 104.0	1 135.2	1 164.7	1 196.7	1 231.8
Total convergence differences	1 452.0	1 466.1	1 617.5	1 803.4	1 992.4
GFS Net worth	**95 304.8**	**88 997.2**	**94 648.7**	**97 426.9**	**103 902.1**

Notes:

(a) Determined in accordance with the ABS GFS Manual.

(b) The convergence difference in accounts receivable arises because GFS does not recognise doubtful receivables, whereas a provision for doubtful receivables is recognised in the balance sheet.

(c) The convergence difference in investments in other sector entities arises in the GG Sector in relation to the accounts receivable (provisions for doubtful receivables) in the PNFC and PFC sectors, future tax benefits and deferred tax liability in those sectors. In addition to the non-recognition of doubtful receivables mentioned above, GFS does not recognise deferred tax liabilities or future tax benefits unless or until those liabilities or benefits are realised.

(e) Reconciliation to GFS Cash surplus/(deficit)[a]

($ million)

	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Cash surplus/(deficit)	**10.2**	**(589.1)**	**(703.0)**	**(626.2)**	**(664.1)**
Convergence differences:					
Less: Acquisitions under finance leases and similar arrangements [b]	(231.4)	..	..	..	(840.1)
Total convergence differences	(231.4)	..	..	..	(840.1)
GFS Cash surplus/ (deficit)	**(221.2)**	**(589.1)**	**(703.0)**	**(626.2)**	**(1 504.2)**

Notes:

(a) Determined in accordance with the ABS GFS Manual.

(b) Recognition of the finance lease for the Royal Women's Hospital was originally budgeted to occur during 2008-09, however this actually occurred in 2007-08.

Note 25: Financial instruments – financial risk management objective and policies

The 2007-08 Financial Report (Note 32) contains a comprehensive disclosure of the State's (including the general government sector's) financial risk management objectives and policies. These risk management objectives and policies were updated by the State in September 2007, and no substantive change has since been made. In relation to the general government sector, the following is a summary of how these risks are managed and reviewed.

The general government sector's principal holdings of financial instruments comprise domestic loans and long term liabilities, finance leases, cash, Australian currency term deposits and other debt securities.

These financial instruments arise primarily as a consequence of the need to raise finance for the State's operations including investment in productive assets or from the effective management of financial surpluses. The State also has various other financial assets and liabilities such as receivables and payables (which arise directly from its operations), and to a lesser extent, investments in equities and managed investment schemes (unit trust based portfolio investments). Although certain state controlled entities outside the general government sector may enter into derivative transactions, none of these entities are included in the general government sector.

The main risks arising from the general government's financial instruments are fair value and cash flow interest rate risks, credit risk, liquidity risk, foreign currency risk and equity price risk. As a whole, the State's financial risk management program seeks to mitigate these risks and reduce volatility on its financial performance. The State enters into, or trades financial instruments, to match investment outcomes to liquidity requirements within a regulated policy framework.

Interest rate risk

The general government sector adopts a conservative risk philosophy, and operates within prescribed portfolio management guidelines to limit the impact on the budget of adverse movements in interest rates within acceptable bounds.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Only a small portion of the general government's financial instruments are exposed to cash flow interest risk. Exposure to such risk arises from financial assets and financial liabilities with floating interest rates which are measured at amortised cost.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The majority of the State's exposure to interest rate risk arises from fair value interest rate risk. Exposure to such risk relates primarily to the State's long term debt obligations with fixed interest rates which are measured at fair value.

The State's borrowings are mainly managed by Treasury Corporation of Victoria (TCV), the State's central borrowing authority. TCV manages the State's interest risk exposure from borrowings through daily quantification of the risk which assesses the potential loss that the State might incur under various market scenarios. Interest rate risk is managed within an approved limit structure in accordance with TCV's prudential policy and risk management framework, which requires consistency with the Australian Prudential Regulatory Authority (APRA) prudential statements for banks.

The State's policy for the management of interest rate risk on general government borrowings is to achieve relative certainty of interest cost while seeking to minimise net borrowing costs within portfolio risk management guidelines. Generally, this is achieved by undertaking fixed rate borrowings with relatively even maturity profiles. There has been no change in the State's exposure to interest rate risk or the manner in which it manages and measures the risk from the previous reporting period.

Credit risk

The general government sector's maximum exposure to credit risk, in relation to each class of financial asset, is the carrying amount of those assets in the estimated balance sheet.

With respect to credit risk arising from financial assets, which mainly comprise cash and cash equivalents, available for sale assets and receivables, the exposure to credit risk arises from default of the counterparty.

Cash equivalents and available for sale investments are mainly managed through the State's principal borrowing and investing authorities. These corporations manage credit risks by avoiding concentration of exposures to any one counterparty and having a wide range of approved counterparties.

Entities in the general government sector manage contractual receivables, predominantly debtors in relation to goods and services and accrued investment income, in accordance with guidelines consistent with the compliance framework issued by the Minister for Finance. A prudent level of provisions for doubtful receivables is included in the estimated balance sheet.

Liquidity risk

Liquidity risk arises from being unable to meet financial obligations as they fall due. The State manages liquidity through rigorous cash flow and maturities planning and monitoring, including the annual budget process and through holding high quality liquid assets.

Foreign exchange risk

The general government sector has no interest bearing liabilities or financial assets denominated in foreign currencies. The currency risk arising from the State's offshore funding program is managed primarily through TCV using currency swaps, forward foreign exchange contracts and foreign exchange options. It is the State's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

Equity price risk

Equity price risk for the general government sector arises due to investments in Australian and international equities and managed investment schemes. These investments are usually policy specific, and allocated and traded to match investment objectives appropriate to liabilities. Victorian Funds Management Corporation (VFMC) provides longer term investment management services to the State including the general government sector. VFMC places investments based on agreed investment strategies developed on a case by case basis and consistent with the prudential supervisory policies and framework of the state. VFMC limits the State's equity price risk through diversification of its investment portfolio, reflected in the Investment Risk Management Plan approved by the Treasurer.

Note 26: Glossary of technical terms

The following is a summary of the major technical terms used in this Budget Update. For a more comprehensive list, refer to the estimated financial statements Note 26 in Chapter 1 of 2008-09 *Budget Paper No. 4*.

ABS GFS manual

The ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods* as updated from time to time.

Advances paid

Loans acquired for policy rather than liquidity management purposes. Included are long and short term loans, non marketable debentures and long and short term promissory agreements (bond and bills) issued to public sector units for achieving government policy objectives.

Capital grants

Transactions in which the ownership of an asset (other than cash and inventories) is transferred from one institutional unit to another, in which cash is transferred to enable the recipient to acquire another asset or in which the funds realised by the disposal of another asset are transferred for which no economic benefits of equal value are receivable or payable in return.

Cash surplus/deficit

Net cash flows from operating activities plus net cash flows from acquisition and disposal of non financial assets (less dividends paid for the PNFC and PFC sectors).

Cash surplus/deficit – ABS GFS version

Equal to the cash surplus deficit (above) less the value of assets acquired under finance leases and similar arrangements.

Comprehensive result

The net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other movements in equity.

Current grants

Amounts payable or receivable for current purposes for which no economic benefits of equal value are receivable or payable in return.

Financial asset

A financial asset is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

- to receive cash or another financial asset from another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

(d) a contract that will or may be settled in the entity's own equity instruments and is:

- a non derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
- a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Fiscal aggregates

Analytical balances that are useful for macroeconomic analysis purposes, including assessing the impact of a government and its sectors on the economy. AASB 1049 prescribes: net operating balance, net lending/borrowing (fiscal balance), change in net worth (comprehensive result), net worth, and cash surplus/deficit. Additional fiscal aggregates not included in AASB 1049 are net debt, net financial worth, net financial liabilities.

Government units

Legal entities established by political processes which have legislative, judicial or executive authority over other institutional units within a given area and which: (i) provide goods and services to the community and/or individuals free of charge or at prices that are not economically significant; and (ii) redistribute income and wealth by means of taxes and other compulsory transfers.

Government Finance Statistics

Government Finance Statistics (GFS) enables policymakers and analysts to study developments in the financial operations, financial position and liquidity situation of the government. More details about the GFS can be found in the Australian Bureau of Statistics (ABS) GFS Manual Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005.

General government sector

The general government (GG) sector comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. General government services include those which are mainly non market in nature, those which are largely for collective consumption by the community, and those which involve the transfer or redistribution of income. These services are financed mainly through taxes, other compulsory levies and user charges. A listing of all entities comprising the GG sector is included at Note 27.

Grants

Transactions in which one unit provides goods, services, assets (or extinguishes a liability) or labour to another unit without receiving approximately equal value in return. Grants can either be of a current or capital nature (see current grants and capital grants).

While grants to governments may result in the provision of some goods or services to the transferor, they do not give the transferor a claim to receive directly benefits of approximately equal value. Receipt and sacrifice of approximately equal value may occur, but only by coincidence. For example, governments are not obliged to provide commensurate benefits, in the form of goods or services, to particular taxpayers in return for their taxes. For this reason, grants are referred to by the AASB as involuntary transfers and are termed non reciprocal transfers.

Grants can be paid as general purpose grants which refers to grants which are not subject to conditions regarding their use. Alternatively, they may be paid as specific purpose grants which are paid for a particular purpose and/or have conditions attached regarding their use.

Grants for on passing

All grants paid to one institutional sector (e.g. a State general government) to be passed on to another institutional sector (e.g. local government or a private non profit institution).

Institutional unit

An economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.

Interest expense

Costs incurred in connection with the borrowing of funds. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of finance lease repayments, and amortisation of discounts or premiums in relation to borrowings.

Key fiscal aggregates

Referred to as analytical balances in the ABS GFS Manual, are data identified as useful for macroeconomic analysis purposes, including assessing the impact of a government and its sectors on the economy. They are: opening net worth, net operating balance, net lending/(borrowing), change in net worth due to revaluations, change in net worth due to other changes in the volume of assets, total change in net worth, closing net worth and cash surplus/(deficit).

Net acquisition of non financial assets (from transactions)

Purchases (and other acquisitions) of non financial assets less sales (or disposals) of non financial assets less depreciation plus changes in inventories and other movements in non financial assets. Includes only those increases or decreases in non financial assets resulting from transactions and therefore excludes write offs, impairment write downs and revaluations.

Net cash from investments in financial assets (liquidity management purposes)

Net cash flows from investments in financial assets (liquidity management purposes) is cash receipts from liquidation or repayment of investments in financial assets for liquidity management purposes less cash payments for such investments. Investment for liquidity management purposes means making funds available to others with no policy intent and with the aim of earning a commercial rate of return.

Net cash from investments in financial assets (policy purposes)

Net cash flows from investments in financial assets (policy purposes) is cash receipts from the repayment and liquidation of investments in financial assets for policy purposes less cash payments for acquiring financial assets for policy purposes. Acquisition of financial assets for policy purposes is distinguished from investments in financial assets (liquidity management purposes) by the underlying government motivation for acquiring the assets. Acquisition of financial assets for policy purposes is motivated by government policies such as encouraging the development of certain industries or assisting citizens affected by natural disaster.

Net gain on equity investments in other sector entities

Net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities) comprises the net gains relating to the equity held by the GG Sector in other sector entities. It arises from a change in the carrying amount of net assets of the subsidiaries. The net gains are measured based on the proportional share of the subsidiary's carrying amount of net assets/(liabilities) before elimination of inter sector balances.

Net debt

Net debt equals sum of deposits held, advances received, government securities, loans and other borrowing less the sum of cash and deposits, advances paid and investments, loans and placements, and investment in GG Sector entities using the equity method.

Net financial liabilities

Total liabilities less financial assets, other than equity in PNFCs and PFCs. This measure is broader than net debt as it includes significant liabilities, other than borrowings (e.g. accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth.

Net lending/borrowing

The financing requirement of government, calculated as the net operating balance less the net acquisition of non financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.

Net result

Net result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as ‘other non owner movements in equity’.

Net result from transactions/net operating balance

Net result from transactions or net operating balance is a key fiscal aggregate and is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

Net worth

Assets less liabilities. It is an economic measure of wealth and reflects the contribution of jurisdictions to the wealth of Australia.

Net financial worth

Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt in that it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

Non financial assets

Non financial assets are all assets that are not ‘financial assets’. It includes inventories, land, buildings, infrastructure, road networks, plant and equipment, cultural and heritage assets, intangibles and biological assets such as commercial forests.

Non financial public sector

The non financial public sector represents the consolidated transactions and assets and liabilities of the general government and public non financial corporations sectors. In compiling statistics for the non financial public sector, transactions and debtor creditor relationships between sub sectors are eliminated to avoid double counting.

Non produced assets

Non produced assets are assets needed for production that have not themselves been produced. They include land, subsoil assets, and certain intangible assets. Non produced intangibles are intangible assets needed for production that have not themselves been produced. They include constructs of society such as patents.

Non profit institution

A legal or social entity that is created for the purpose of producing or distributing goods and services but is not permitted to be a source of income, profit or other financial gain for the units that establish, control or finance it.

Other economic flows

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. It includes gains and losses from disposals, revaluations and impairments of non current physical and intangible assets; actuarial gains and losses arising from defined benefit superannuation plans; fair value changes of financial instruments and agricultural assets; and depletion of natural assets (non produced) from their use or removal. In simple terms, other economic flows are changes arising from market re measurements.

Payables

Includes short and long term trade debt and accounts payable, grants and interest payable.

Public Financial Corporations sector

Public financial corporations (PFC) are bodies primarily engaged in the provision of financial intermediation services or auxiliary financial services. They are able to incur financial liabilities on their own account (e.g. taking deposits, issuing securities or providing insurance services). The public financial corporations sector includes the Treasury Corporation of Victoria and the Transport Accident Commission. Estimates are not published for the public financial corporations sector. A listing of all PFCs controlled by the Victorian government is included at Note 27.

Public Non Financial Corporations sector

The public non financial corporations (PNFC) sector comprises bodies mainly engaged in the production of goods and services (of a non financial nature) for sale in the market place at prices that aim to recover most of the costs involved (e.g. water and port authorities). In general, public non financial corporations are legally distinguishable from the governments which own them. A listing of all PNFCs controlled by the Victorian government is included at Note 27.

Quasi corporation

An unincorporated enterprise that functions as if it were a corporation, has the same relationship with its owner as a corporation, and keeps a separate set of accounts.

Receivables

Includes short and long term trade credit and accounts receivable, grants, taxes and interest receivable.

Sale of goods and services

Refers to revenue from the direct provision of goods and services and includes fees and charges for services rendered, sales of goods and services, fees from regulatory services, work done as an agent for private enterprises. It also includes rental income under operating leases and on produced assets such as buildings and entertainment, but excludes rent income from the use of non produced assets such as land. User charges includes sale of goods and services revenue.

Superannuation interest expense

The expense resulting from the increase in the liability due to the fact that, for all participants in the scheme, retirement (and death) is one year nearer, and so one fewer discount factors must be used to calculate the present value of the benefits for each future year. Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement. The cost is measured net of the actuarial return on plan assets of defined benefit schemes calculated using an actuarially determined long term rate of return.

Superannuation

Includes all superannuation expenses from transactions except superannuation interest cost; generally includes current service cost, which is the increase in entitlements associated with the employment services provided by employees in the current period. Superannuation actuarial gains/losses are excluded as they are considered other economic flows.

Transactions

Transactions are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement. They also include flows within an entity such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the government and taxpayers. Transactions can be in kind (e.g. assets provided/given free of charge or for nominal consideration) or where the final consideration is cash. In simple terms, transactions arise from the policy decisions of the government.

Note 27: Controlled entities

The following is a list of general government sector entities which have been consolidated for the purposes of the estimated financial statements. For further details on consolidation policy, refer to Note 1 (E) 'Basis of consolidation' in the statement of significant accounting policies. In addition, the list also provides the names of controlled entities which have been consolidated within the general government sector balance sheet, measured at the proportional share of the carrying amount of their net assets. Unless otherwise noted below, all such entities are wholly owned.

Controlled Entities		*Entities included as investments in other sectors*	
	General government	*Public non-financial corporation*	*Public financial corporation*
Department of Education and Early Childhood Development	*		
Victorian Curriculum and Assessment Authority	*		
Victorian Institute of Teaching	*		
Victorian Registration and Qualifications Authority	*		
Department of Human Services	*		
Health Purchasing Victoria	*		
Hospitals, Health and Ambulance Services including:			
Alexandra District Hospital	*		
Alpine Health	*		
Alfred Health [(a)]	*		
Ambulance Victoria [(a)]	*		
Austin Health	*		
Bairnsdale Regional Health Service	*		
Ballarat Health Services	*		
Barwon Health	*		
Bass Coast Regional Health	*		
Beaufort and Skipton Health Service	*		
Beechworth Health Service	*		
Benalla and District Memorial Hospital	*		
Bendigo Health Care Group	*		
Boort District Hospital	*		
Casterton Memorial Hospital	*		
Central Gippsland Health Service	*		
Cobram District Hospital	*		
Cohuna District Hospital	*		
Colac Area Health	*		
Dental Health Services Victoria	*		
Djerriwarrh Health Services	*		
Dunmunkle Health Services	*		
East Grampians Health Service	*		
East Wimmera Health Service	*		
Eastern Health	*		
Echuca Regional Health	*		

Note 27: Controlled entities (continued)

Controlled Entities	*General government*	*Entities included as investments in other sectors*	
		Public non-financial corporation	*Public financial corporation*
Edenhope and District Memorial Hospital	*		
Gippsland Southern Health Service	*		
Goulburn Valley Health	*		
Hepburn Health Service	*		
Hesse Rural Health Service	*		
Heywood Rural Health	*		
Infertility Treatment Authority	*		
Inglewood and District Health Service	*		
Kerang and District Hospital	*		
Kooweerup Regional Health Service	*		
Kyabram and District Health Services	*		
Kyneton District Health Service	*		
Latrobe Regional Hospital	*		
Lorne Community Hospital	*		
Maldon Hospital	*		
Mallee Track Health and Community Services	*		
Manangatang and District Hospital	*		
Mansfield District Hospital	*		
Maryborough District Health Service	*		
McIvor Health and Community Services	*		
Melbourne Health	*		
Moyne Health Services	*		
Mt Alexander Hospital	*		
Nathalia District Hospital	*		
Northeast Health Wangaratta	*		
Northern Health	*		
Numurkah District Health Service	*		
Omeo District Health	*		
Orbost Regional Health	*		
Otway Health and Community Services	*		
Peninsula Health	*		
Peter MacCallum Cancer Institute	*		
Portland District Health	*		
Robinvale District Health Services	*		
Rochester and Elmore District Health Service	*		
Rural Northwest Health	*		
Seymour District Memorial Hospital	*		
South Gippsland Hospital	*		
South West Healthcare	*		
Southern Health	*		
Stawell Regional Health	*		
Swan Hill District Hospital	*		

Note 27: Controlled entities (continued)

Controlled Entities	General government	Entities included as investments in other sectors: Public non-financial corporation	Public financial corporation
Tallangatta Health Service	*		
Terang and Mortlake Health Service	*		
The Kilmore and District Hospital	*		
The Queen Elizabeth Centre	*		
The Royal Children's Hospital	*		
The Royal Victorian Eye and Ear Hospital	*		
The Royal Women's Hospital	*		
Timboon and District Healthcare Service	*		
Tweddle Child and Family Health Service	*		
Upper Murray Health and Community Services	*		
Victorian Institute of Forensic Mental Health	*		
West Gippsland Healthcare Group	*		
West Wimmera Health Service	*		
Western District Health Service	*		
Western Health	*		
Wimmera Health Care Group	*		
Wodonga Regional Health Service	*		
Yarram and District Health Service	*		
Yarrawonga District Health Service	*		
Yea and District Memorial Hospital	*		
Dental Practice Board of Victoria	*		
Medical Practitioners Board of Victoria	*		
Medical Radiation Practitioners Board	*		
Mental Health Review Board	*		
Nurses Board of Victoria	*		
Pharmacy Board of Victoria	*		
Psychosurgery Review Board	*		
Registration Boards including:	*		
Chinese Medicine Registration Board of Victoria	*		
Chiropractors Registration Board of Victoria	*		
Optometrists Registration Board of Victoria	*		
Osteopaths Registration Board of Victoria	*		
Physiotherapists Registration Board of Victoria	*		
Podiatrists Registration Board of Victoria	*		
Psychologists Registration Board of Victoria	*		
Victorian Health Promotion Foundation	*		
Cemeteries including:			
Anderson’s Creek Cemetery Trust		*	
Ballarat General Cemeteries Trust		*	
Bendigo Cemeteries Trust		*	
Fawkner Crematorium and Memorial Park		*	
Keilor Cemetery Trust		*	

Note 27: Controlled entities (continued)

Controlled Entities	General government	Entities included as investments in other sectors: Public non-financial corporation	Public financial corporation
Preston Cemetery Trust		*	
Templestowe Cemetery Trust		*	
The Cheltenham and Regional Cemeteries Trust		*	
The Lilydale Cemeteries Trust		*	
The Mildura Cemetery Trust		*	
The Trustee of the Altona Memorial Park		*	
Trustees of the Geelong Cemeteries Trust		*	
Trustees of the Necropolis Springvale		*	
Wyndham Cemeteries Trust		*	
Director of Housing		*	
Department of Innovation Industry and Regional Development	*		
Australian Synchrotron Holding Company [b]	*		
Film Victoria	*		
TAFEs including:			
Bendigo Regional Institute of TAFE	*		
Box Hill Institute of TAFE	*		
Central Gippsland Institute of TAFE	*		
Chisholm Institute of TAFE	*		
Driver Education Centre Australia Ltd	*		
East Gippsland Institute of TAFE	*		
Faculty of Land and Food Resources	*		
Gordon Institute of TAFE	*		
Goulburn Ovens Institute of TAFE	*		
Holmesglen Institute of TAFE	*		
International Fibre Centre Limited	*		
Kangan Batman Institute of TAFE	*		
Northern Melbourne Institute of TAFE	*		
Royal Melbourne Institute of Technology (TAFE Division)	*		
South West Institute of TAFE	*		
Sunraysia Institute of TAFE	*		
Swinburne University of Technology (TAFE Division)	*		
University of Ballarat (TAFE Division)	*		
Victoria University (TAFE Division)	*		
William Angliss Institute of TAFE	*		
Wodonga Institute of TAFE	*		
Melbourne Central City Studios Pty Ltd[a]	*		
Prince Henry's Institute of Medical Research	*		
Regional Development Victoria	*		
Tourism Victoria	*		

Note 27: Controlled entities (continued)

Controlled Entities		*Entities included as investments in other sectors*	
	General government	*Public non-financial corporation*	*Public financial corporation*
Victorian Skills Commission	*		
Australian Grand Prix Corporation		*	
Emerald Tourist Railway Board		*	
Fed Square Pty Ltd		*	
Melbourne Convention and Exhibition Trust		*	
Victorian Major Events Company Limited		*	
Department of Justice	*		
Country Fire Authority	*		
Emergency Services Telecommunications Authority	*		
Equal Opportunity and Human Rights Commission	*		
Judicial College of Victoria	*		
Legal Services Board	*		
Legal Services Commissioner	*		
Liquor Licensing Panel	*		
Metropolitan Fire and Emergency Services Board	*		
Office of Police Integrity	*		
Office of Public Prosecutions	*		
Office of the Public Advocate	*		
Office of the Victorian Privacy Commissioner	*		
Sentencing Advisory Council	*		
Victoria Legal Aid	*		
Victoria Police (Office of the Chief Commissioner of Police)	*		
Victoria State Emergency Service Authority	*		
Victorian Commission for Gambling Regulation	*		
Victorian Electoral Commission	*		
Victorian Institute of Forensic Medicine	*		
Victorian Law Reform Commission	*		
Victorian Professional Standards Council	*		
Greyhound Racing Victoria		*	
Harness Racing Victoria		*	
Department of Planning and Community Development	*		
Adult Community and Further Education Board	*		
Adult Multicultural Education Services	*		
Architects Registration Board of Victoria	*		
Building Commission	*		
Centre for Adult Education	*		
Growth Areas Authority	*		
Heritage Council	*		
Melbourne Cricket Ground Trust	*		
Plumbing Industry Commission	*		

Note 27: Controlled entities (continued)

Controlled Entities	*General government*	*Entities included as investments in other sectors* — *Public non-financial corporation*	*Public financial corporation*
Shrine of Remembrance Trustees	*		
Victorian Institute of Sport Limited	*		
Victorian Institute of Sport Trust	*		
Victorian Veterans Council	*		
Melbourne and Olympic Parks Trust		*	
Queen Victoria Women's Centre		*	
State Sport Centres Trust		*	
Victorian Urban Development Authority (VicUrban)		*	
VITS Languagelink		*	
Department of Premier and Cabinet	*		
Australian Centre for the Moving Image	*		
Library Board of Victoria	*		
Melbourne Recital Centre Limited	*		
Museums Board of Victoria	*		
National Gallery of Victoria, Council of Trustees	*		
Office of the Ombudsman	*		
State Services Authority	*		
Geelong Performing Arts Centre Trust		*	
Victorian Arts Centre Trust		*	
Department of Primary Industries	*		
Energy Safe Victoria	*		
Veterinary Practitioners Registration Board of Victoria	*		
Agriculture Victoria Services Pty Ltd		*	
Dairy Food Safety Victoria		*	
Melbourne Market Authority		*	
Murray Valley Citrus Board		*	
Murray Valley Wine Grape Industry Development Committee		*	
Northern Victorian Fresh Tomato Industry Development Committee		*	
Phytogene Pty Ltd		*	
PrimeSafe		*	
Victorian Energy Networks Corporation (VENCorp)		*	
Victorian Strawberry Industry Development Committee		*	
Department of Sustainability and Environment	*		
Catchment Management Authorities including:	*		
Corangamite Catchment Management Authority	*		
East Gippsland Catchment Management Authority	*		
Glenelg Hopkins Catchment Management Authority	*		

Note 27: Controlled entities (continued)

Controlled Entities		*Entities included as investments in other sectors*	
	General government	*Public non-financial corporation*	*Public financial corporation*
Goulburn Broken Catchment Management Authority	*		
Mallee Catchment Management Authority	*		
North Central Catchment Management Authority	*		
North East Catchment Management Authority	*		
Port Phillip and Westernport Catchment Management Authority	*		
West Gippsland Catchment Management Authority	*		
Wimmera Catchment Management Authority	*		
Environment Protection Authority	*		
Office of the Commissioner for Environmental Sustainability	*		
Parks Victoria	*		
Royal Botanic Gardens Board	*		
Surveyors Registration Board of Victoria	*		
State Owned Enterprise for Irrigation Modernisation in Northern Victoria	*		
Sustainability Victoria	*		
Trust for Nature (Victoria)	*		
Alpine Resorts Management Board including:			
Alpine Resorts Co-ordinating Council		*	
Falls Creek Alpine Resort Management Board		*	
Lake Mountain Alpine Resort Management Board		*	
Mount Baw Baw Alpine Resort Management Board		*	
Mount Buller and Mount Stirling Alpine Resort Management Board		*	
Mount Hotham Alpine Resort Management Board		*	
Phillip Island Nature Park Board of Management Inc.		*	
Waste Management Groups including:		*	
Barwon Regional Waste Management Group		*	
Calder Regional Waste Management Group		*	
Central Murray Regional Waste Management Group		*	
Desert Fringe Regional Waste Management Group		*	
Gippsland Regional Waste Management Group		*	
Goulburn Valley Regional Waste Management Group		*	
Grampians Regional Waste Management Group		*	
Highlands Regional Waste Management Group		*	
Metropolitan Waste Management Group		*	
Mildura Regional Waste Management Group		*	

Note 27: Controlled entities (continued)

Controlled Entities	*General government*	*Entities included as investments in other sectors* — *Public non-financial corporation*	*Public financial corporation*
Mornington Peninsula Regional Waste Management Group		*	
Northern East Victorian Regional Waste Management Group		*	
South Western Regional Waste Management Group		*	
Water Authorities including:			
Barwon Region Water Corporation		*	
Central Gippsland Region Water Corporation		*	
Central Highlands Region Water Corporation		*	
Coliban Region Water Corporation		*	
East Gippsland Region Water Corporation		*	
Gippsland and Southern Rural Water Corporation		*	
Goulburn Valley Region Water Corporation		*	
Goulburn-Murray Rural Water Corporation		*	
Grampians Wimmera-Mallee Water Corporation		*	
Lower Murray Urban and Rural Water Corporation		*	
Melbourne Water Corporation		*	
North East Region Water Corporation		*	
South Gippsland Region Water Corporation		*	
Wannon Region Water Corporation		*	
Western Region Water Corporation		*	
Westernport Region Water Corporation		*	
Yarra Bend Park Trust		*	
Zoological Parks and Gardens Board of Victoria		*	
Department of Transport	*		
Roads Corporation	*		
Southern and Eastern Integrated Transport Authority	*		
Southern Cross Station Authority	*		
Port of Hastings Corporation		*	
Port of Melbourne Corporation		*	
Public Transport Ticketing Body		*	
V/Line Passenger Corporation		*	
Victorian Rail Track		*	
Victorian Regional Channels Authority		*	
Department of Treasury and Finance	*		
CenITex [(a)]	*		
Essential Services Commission	*		
Domestic (HIH) Indemnity Fund and Housing Guarantee Claims	*		
Victorian Competition and Efficiency Commission	*		
City West Water Limited		*	

Note 27: Controlled entities (continued)

Controlled Entities		*Entities included as investments in other sectors*	
	General government	*Public non-financial corporation*	*Public financial corporation*
South East Water Limited		*	
State Electricity Commission of Victoria (shell)		*	
VicFleet Pty Ltd		*	
VicForests		*	
Victorian Plantations Corporation (shell)		*	
Yarra Valley Water Limited		*	
Rural Finance Corporation of Victoria			*
State Trustees Limited			*
Transport Accident Commission			*
Treasury Corporation of Victoria			*
Victorian Funds Management Corporation			*
Victorian Managed Insurance Authority			*
Victorian WorkCover Authority			*
Parliament of Victoria	*		
Victorian Auditor-General's Office	*		

Notes:

(a) Entities commenced operations during 2008-09 include:
- *Alfred Health (Bayside Health renamed) as of 9 September 2008;*
- *Ambulance Victoria as of 1 July 2008;*
- *CenITex as of 1 July 2008; and*
- *Melbourne Central City Studios Pty Ltd as of 17 November 2008.*

(b) The Victorian government has a controlling interest in the Australian Synchrotron Holding Company and holds approximately 80 per cent of the issued shares.

Entities ceased operations during 2008-09 include:
- *Alexandra District Ambulance Service as of 1 July 2008;*
- *Ambulance Services Victoria Metropolitan Region as of 1 July 2008;*
- *Bayside Health (Renamed Alfred Health) as of 9 September 2008;*
- *First Mildura Irrigation Trust as of 20 August 2008; and*
- *Rural Ambulance Victoria as of 1 July 2008.*

CHAPTER 6: SUPPLEMENTARY TABLES UNIFORM PRESENTATION FRAMEWORK

THE UNIFORM PRESENTATION FRAMEWORK (UPF) GAAP/GFS HARMONISATION

In October 2007, the Australian Accounting Standards Board (AASB) issued a new standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, applicable from 1 July 2008. The objective as set out by the Financial Reporting Council in December 2002 is 'to achieve an Australian accounting standard for a single set of government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements'.

This new accounting standard requires that, in addition to complying with all other relevant accounting standards, the report for the general government sector must also include key fiscal aggregates determined in a manner consistent with the Australian Bureau of Statistics (ABS) GFS Manual. Any differences between 'pure' GFS and the amounts presented under GAAP must also be reconciled.

Consistent with the disclosure requirements of the new accounting standard AASB 1049, a revised UPF was approved by Loan Council in March 2008. The revised UPF provides for a common core of financial information to be provided by jurisdictions for budget, budget update and outcomes reporting. Chapter 5 provides the statements and notes for the general government sector under the new framework, consistent also with AASB 1049. This chapter provides the additional financial statements and notes under the UPF for the public non-financial corporations sector and the non-financial public sector (the general government and public non-financial corporations sector less inter sector eliminations) plus the Loan Council Allocation table.

Comprehensive operating statement

The comprehensive operating statement is designed to capture the composition of revenues and expenses and the net cost of a government's activities (net result from transactions) within a financial year. As well as the full cost of resources consumed by government in achieving its objectives, and how these costs are met from various revenue sources, it also shows the impact of other economic flows on the net assets of the sector.

Thus the comprehensive operating statement reports three major fiscal measures: the net operating balance, also referred to as the net result from transactions, net lending/borrowing and total changes in net worth. The net operating balance is calculated as revenue from transactions minus expenses from transactions. Net lending/borrowing, or fiscal balance, includes net acquisition of non-financial assets from transactions but excludes depreciation, thereby giving a measure of a jurisdiction's call on financial markets. Total change in net worth is the comprehensive result from all items of income and expense recognised for the period, including other economic flows recognised in the net result as well as revaluations and other adjustments taken directly to equity.

Balance sheet

The balance sheet records a government's stocks of financial and non-financial assets and liabilities. This statement discloses the resources over which a government maintains control.

The balance sheet under GAAP/GFS harmonisation differs from the standard accounting presentation in that it no longer distinguishes between current and non-current assets.

Major fiscal aggregates published in relation to the balance sheet include net financial worth, net financial liabilities and net debt. A description and definition of each of these aggregates is included in the glossary of terms in the preceding chapter.

Cash flow statement

The cash flow statement records a government's cash receipts and payments and shows how a government obtains and expends cash.

The cash flow statement reports the cash surplus/deficit as a fiscal aggregate. Unlike in the GFS cash flow statement, the GAAP-based cash surplus/deficit excludes finance leases and similar arrangements.

Table 6.1: Public non-financial corporations sector operating statement

($ million)

	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Revenue					
Interest	85.8	88.9	78.2	80.9	86.7
Dividends	5.1	5.4	34.1	39.9	45.9
Sales of goods and services	3 841.8	3 862.7	4 339.8	4 697.4	5 114.8
Grants	1 947.5	1 965.7	2 021.5	2 034.9	1 978.1
Other current revenue	436.1	455.5	470.8	497.6	495.5
Total revenue	**6 316.4**	**6 378.2**	**6 944.4**	**7 350.7**	**7 721.0**
Expenses					
Employee expenses	768.4	779.7	803.7	829.2	848.7
Other superannuation	53.8	66.8	68.2	70.3	72.1
Depreciation	968.2	1 006.4	1 089.4	1 154.7	1 169.3
Interest expense	540.5	521.5	699.7	891.5	1 023.3
Other operating expenses	3 704.3	3 805.4	3 965.6	3 987.0	3 995.7
Grants and other transfers	184.0	184.1	177.7	176.5	96.7
Other property expenses	93.8	47.7	98.6	118.2	156.6
Total expenses	**6 312.9**	**6 411.7**	**6 902.9**	**7 227.4**	**7 362.4**
Net result from transactions – Net operating balance	**3.4**	**(33.5)**	**41.5**	**123.4**	**358.6**
Other economic flows included in net result					
Net gain on sale of non-financial assets	(0.3)	(4.3)	0.2	18.9	20.6
Net gain/ (loss) on financial assets or liabilities at fair value	57.2	123.4	125.8	126.3	111.4
Net actuarial gains/ (losses) of superannuation defined benefits plans	(4.7)	..	..	..	..
Other gains/ (losses) from other economic flows	(27.7)	(102.4)	(132.6)	(133.5)	(126.3)
Total other economic flows included in net result	**24.4**	**16.7**	**(6.6)**	**11.7**	**5.6**
Net result	**27.9**	**(16.9)**	**34.9**	**135.1**	**364.3**
Other Economic Flows – Other Movements in Equity					
Net gain on financial assets at fair value	..	0.3	(1.3)	..	..
Revaluations of non-financial assets	664.7	580.9	(44.8)	(20.7)	(37.9)
Other movements in equity	989.6	911.0	850.4	695.7	382.0
Total other economic flows – Other movements in equity	**1 654.3**	**1 492.2**	**804.3**	**674.9**	**344.1**
Comprehensive result – Total change in net worth	**1 682.1**	**1 475.4**	**839.2**	**810.0**	**708.4**
FISCAL AGGREGATES					
Net operating balance	**3.4**	**(33.5)**	**41.5**	**123.4**	**358.6**
Less: net acquisition of non-financial assets	4 006.4	3 810.1	3 794.7	3 375.0	2 548.4
Net Lending/ (borrowing)	**(4 003.0)**	**(3 843.6)**	**(3 753.2)**	**(3 251.6)**	**(2 189.8)**

Source: Department of Treasury and Finance

Table 6.2: Non-financial public sector operating statement

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Revenue					
Taxation revenue	13 214.5	12 705.6	13 311.9	14 110.3	14 608.9
Interest	471.7	508.7	521.3	526.6	532.4
Dividends and income tax equivalents and rate equivalents	298.5	169.5	157.6	210.6	394.0
Sales of goods and services	7 129.6	7 603.1	8 247.1	8 596.6	9 051.7
Grants	17 553.5	17 675.9	18 336.0	19 129.7	20 039.3
Other current revenue	1 851.2	2 050.8	1 943.9	1 997.4	1 949.5
Total revenue	**40 519.0**	**40 713.5**	**42 517.8**	**44 571.2**	**46 575.8**
Expenses					
Employee expenses	14 961.5	15 004.3	16 079.2	17 065.0	17 957.7
Superannuation interest expense	518.6	609.7	679.1	689.8	719.2
Other superannuation	1 393.4	1 433.1	1 467.6	1 532.9	1 575.5
Depreciation	2 577.5	2 602.6	2 764.3	2 942.0	3 071.4
Interest expense	1 027.6	1 074.6	1 304.8	1 612.2	1 822.8
Other operating expenses	14 896.1	15 053.4	15 393.2	15 750.3	16 187.6
Grants and other transfers	4 608.9	4 904.6	4 679.5	4 555.0	4 522.4
Other property expenses	..	..	..	..	..
Total expenses	**39 983.6**	**40 682.4**	**42 367.7**	**44 147.2**	**45 856.6**
Net result from transactions – Net operating balance	**535.4**	**31.1**	**150.1**	**424.0**	**719.2**
Other economic flows included in net result					
Net gain on sale of non-financial assets	43.9	26.4	44.6	22.6	27.9
Net gain/ (loss) on financial assets or liabilities at fair value	57.7	124.0	126.2	126.9	112.1
Net actuarial gains/ (losses) of superannuation defined benefits plans	(4.7)	(3 877.3)	..	..	..
Other gains/ (losses) from other economic flows	(159.7)	(306.0)	(237.7)	(248.2)	(238.1)
Total other economic flows included in net result	**(62.9)**	**(4 032.9)**	**(66.9)**	**(98.7)**	**(98.1)**
Net result	**472.5**	**(4 001.7)**	**83.2**	**325.3**	**621.2**
Other Economic Flows – Other Movements in Equity					
Net gain on financial assets at fair value	..	0.3	(1.3)	..	..
Revaluations of non-financial assets	2 958.2	1 126.2	5 454.9	2 333.2	5 781.5
Other movements in equity	(15.5)	(33.2)	(14.5)	(35.3)	(92.9)
Total other economic flows – Other movements in equity	**2 942.7**	**1 093.3**	**5 439.1**	**2 297.9**	**5 688.6**
Comprehensive result – Total change in net worth	**3 415.3**	**(2 908.4)**	**5 522.3**	**2 623.2**	**6 309.7**

Table 6.2: Non-financial public sector operating statement (continued)

($ million)	2008-09 *Budget*	2008-09 *Revised*	2009-10 *Estimate*	2010-11 *Estimate*	2011-12 *Estimate*
FISCAL AGGREGATES					
Net operating balance	**535.4**	**31.1**	**150.1**	**424.0**	**719.2**
less Net acquisition of non-financial assets from transactions	5 278.7	5 248.5	5 118.7	4 706.8	5 085.6
Net Lending/ (borrowing)	**(4 743.2)**	**(5 217.4)**	**(4 968.6)**	**(4 282.8)**	**(4 366.3)**

Source: Department of Treasury and Finance

Table 6.3: Public non-financial corporations balance sheet

($ million)	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Assets					
Financial assets					
Cash and deposits	642.1	754.5	708.2	800.2	877.8
Advances paid	84.4	86.9	77.2	70.8	67.6
Investments, loans and placements	2 754.0	2 597.4	2 380.0	2 108.0	1 800.9
Receivables	821.9	815.9	916.3	1 009.5	1 145.9
Investments accounted for using equity method	403.1	403.1	403.1	403.1	403.1
Total financial assets	**4 705.5**	**4 657.7**	**4 484.8**	**4 391.5**	**4 295.2**
Non-financial Assets					
Inventories	487.0	617.5	616.1	557.2	529.4
Non-financial assets held for sale	14.5	58.4	68.3	39.2	33.7
Land, buildings, infrastructure, plant and equipment	50 951.2	50 188.0	53 823.6	57 326.2	59 791.8
Other non-financial assets	466.7	527.8	612.7	573.9	561.3
Total non-financial assets	**51 919.5**	**51 391.7**	**55 120.7**	**58 496.6**	**60 916.2**
Total assets	**56 624.9**	**56 049.5**	**59 605.5**	**62 888.1**	**65 211.3**
Liabilities					
Deposits held	97.0	68.3	68.3	67.5	70.0
Advances received	..	..	..	..	..
Borrowings	8 922.6	8 775.3	11 556.7	14 179.2	15 946.0
Payables	1 362.8	1 088.5	1 077.5	1 047.5	1 031.6
Superannuation	28.9	21.5	19.6	17.2	14.1
Other employee benefits	224.0	220.3	227.8	235.6	242.3
Other provisions	3 215.2	3 307.9	3 248.8	3 124.3	2 982.1
Total liabilities	**13 850.5**	**13 481.8**	**16 198.7**	**18 671.3**	**20 286.2**
Net assets	**42 774.4**	**42 567.6**	**43 406.8**	**44 216.8**	**44 925.2**
Accumulated surplus/(deficit)	6 445.5	6 411.4	6 125.2	6 117.7	6 225.7
Other reserves	36 328.9	36 156.3	37 281.6	38 099.1	38 699.4
Net worth	**42 774.4**	**42 567.6**	**43 406.8**	**44 216.8**	**44 925.2**
FISCAL AGGREGATES					
Net financial worth	(9 145.1)	(8 824.1)	(11 713.9)	(14 279.8)	(15 991.0)
Net financial liabilities	9 145.1	8 824.1	11 713.9	14 279.8	15 991.0
Net debt	5 539.1	5 404.9	8 459.7	11 267.8	13 269.8

Source: Department of Treasury and Finance

Table 6.4: Non-financial public sector balance sheet

($ million)	2009 Budget	2009 Revised	2010 Estimate	2011 Estimate	2012 Estimate
Assets					
Financial assets					
Cash and deposits	3 691.2	3 802.4	3 753.3	3 780.8	3 783.2
Advances paid	161.3	168.8	158.0	150.9	147.1
Investments, loans and placements	5 099.3	4 969.9	4 870.0	4 615.3	4 371.7
Receivables	3 406.5	3 342.1	3 316.4	3 318.0	3 484.0
Investments in GGS entities using the equity method	648.1	498.1	498.1	498.1	498.1
Investments accounted for using equity method – other	428.1	431.0	436.0	441.0	446.0
Investments in other sector entities	3 746.6	3 746.6	3 763.2	3 779.8	3 796.4
Total financial assets	**17 181.0**	**16 958.8**	**16 795.0**	**16 583.9**	**16 526.5**
Non-financial Assets					
Inventories	709.5	839.6	838.5	779.4	751.3
Non-financial assets held for sale	85.3	129.1	139.1	110.1	104.5
Land, buildings, infrastructure, plant and equipment	119 713.4	117 368.6	127 897.0	135 095.3	145 986.9
Other non-financial assets	835.5	882.5	928.4	872.1	824.6
Total non-financial assets	**121 343.7**	**119 219.8**	**129 803.0**	**136 856.8**	**147 667.4**
Total assets	**138 524.7**	**136 178.7**	**146 598.0**	**153 440.8**	**164 193.9**
Liabilities					
Deposits held	468.5	439.8	439.8	439.0	441.5
Advances received	2.1	2.0	1.3	0.6	0.1
Borrowings	18 283.6	18 449.6	23 209.1	27 267.6	31 174.7
Payables	4 588.0	4 377.4	4 307.5	4 310.9	4 307.4
Superannuation	13 084.0	17 039.7	17 212.5	17 412.0	17 995.0
Other employee benefits	4 341.7	4 348.7	4 498.5	4 654.6	4 808.5
Other provisions	1 827.7	1 916.1	1 781.6	1 585.1	1 386.0
Total liabilities	**42 595.6**	**46 573.3**	**51 450.3**	**55 669.9**	**60 113.3**
Net assets	**95 929.0**	**89 605.4**	**95 147.7**	**97 770.9**	**104 080.6**
Accumulated surplus/(deficit)	1 806.9	(2 686.8)	(2 602.7)	(2 284.8)	(1 743.2)
Other reserves	94 070.1	92 240.2	97 678.4	99 983.7	105 751.8
Minority interest of contributed capital	52.0	52.0	72.0	72.0	72.0
Net worth	**95 929.0**	**89 605.4**	**95 147.7**	**97 770.9**	**104 080.6**
FISCAL AGGREGATES					
Net financial worth	(25 414.6)	(29 614.5)	(34 655.3)	(39 085.9)	(43 586.8)
Net financial liabilities	29 161.2	33 361.0	38 418.4	42 865.7	47 383.2
Net debt	9 154.4	9 452.3	14 370.8	18 662.0	22 816.3

Source: Department of Treasury and Finance

Table 6.5: Public non-financial corporations cash flow statement

($ million)

	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Cash flows from operating activities					
Receipts					
Grants and subsidies	1 947.8	1 966.1	2 022.9	2 036.5	1 979.4
Sales of goods and services	3 769.7	4 164.6	4 643.8	5 045.6	5 451.5
Interest received	86.1	90.3	77.9	80.9	86.8
Dividends	5.1	5.4	34.2	39.9	45.9
Other receipts	280.5	269.5	283.0	304.9	326.8
Total receipts	**6 089.2**	**6 495.9**	**7 061.8**	**7 507.8**	**7 890.3**
Payments					
Payments for employees	(760.4)	(775.5)	(796.2)	(821.4)	(842.0)
Superannuation	(61.7)	(77.3)	(70.1)	(72.6)	(75.2)
Interest paid	(1 483.2)	(1 477.6)	(1 716.3)	(1 916.8)	(2 048.9)
Grants and subsidies	(121.5)	(119.9)	(114.1)	(111.0)	(31.7)
Goods and services	(2 641.6)	(3 272.5)	(3 262.5)	(3 311.3)	(3 317.8)
Other payments	(184.2)	(162.4)	(198.3)	(223.8)	(264.9)
Total payments	**(5 252.7)**	**(5 885.2)**	**(6 157.5)**	**(6 457.0)**	**(6 580.5)**
Net cash flows from operating activities [(a)]	**836.5**	**610.7**	**904.3**	**1 050.8**	**1 309.8**
Cash flows from investing activities					
Non-financial assets					
Purchases of non-financial assets	(5 045.5)	(4 750.6)	(4 856.1)	(4 538.8)	(3 662.1)
Sales of non-financial assets	126.8	144.0	145.0	129.2	73.2
Cash flows from investments in non-financial assets	(4 918.7)	(4 606.6)	(4 711.1)	(4 409.6)	(3 588.9)
Net cash flows from investments in financial assets for policy purposes	1 258.9	1 174.9	1 181.2	859.3	648.0
Net cash flows from investments in financial assets for liquidity purposes	81.9	288.6	75.8	(1.5)	(1.3)
Net cash flows from investing activities	**(3 577.9)**	**(3 143.0)**	**(3 454.1)**	**(3 551.9)**	**(2 942.2)**
Cash flows from financing activities					
Advances received (net)	(0.2)	(0.2)	..	(0.1)	(0.1)
Net borrowings	2 761.3	2 663.4	2 816.6	2 714.8	1 882.3
Deposits received (net)	(18.8)	(47.4)	..	(0.8)	2.5
Other financing (net)	(280.4)	(250.4)	(313.4)	(121.1)	(175.0)
Net cash flows from financing activities	**2 462.0**	**2 365.4**	**2 503.2**	**2 592.8**	**1 709.8**
Net increase/(decrease) in cash and cash equivalents	**(279.4)**	**(167.0)**	**(46.5)**	**91.8**	**77.4**
Cash and cash equivalents at beginning of reporting period	921.7	921.7	754.7	708.2	800.0
Cash and cash equivalents at end of reporting period	**642.3**	**754.7**	**708.2**	**800.0**	**877.4**

Table 6.5: Public non-financial corporations cash flow statement (continued)

($ million)

	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
FISCAL AGGREGATES					
Net cash flows from operating activities	**836.5**	**610.7**	**904.3**	**1 050.8**	**1 309.8**
Cash flows from investments in non-financial assets	**(4 918.7)**	**(4 606.6)**	**(4 711.1)**	**(4 409.6)**	**(3 588.9)**
Dividends paid	**(280.4)**	**(250.4)**	**(313.4)**	**(121.1)**	**(175.0)**
Cash surplus / (deficit)	**(4 362.6)**	**(4 246.3)**	**(4 120.2)**	**(3 479.9)**	**(2 454.0)**

Source: Department of Treasury and Finance

Note:
(a) These items are inclusive of goods and services tax.

Table 6.6: Non-financial public sector cash flow statement

($ million)

	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Cash flows from operating activities					
Receipts					
Taxes received	13 350.1	12 841.1	13 469.7	14 210.1	14 708.7
Grants	17 553.5	17 675.9	18 336.5	19 129.7	20 039.3
Sales of goods and services	7 164.8	8 503.8	8 898.1	9 398.5	9 848.7
Interest received	455.8	498.3	489.1	494.6	501.4
Dividends and income tax equivalent and rate equivalents	234.2	216.1	157.6	210.5	239.3
Other receipts	1 557.6	1 508.2	1 577.6	1 638.3	1 667.9
Total receipts	**40 315.9**	**41 243.4**	**42 928.6**	**45 081.6**	**47 005.2**
Payments					
Payments for employees	(14 809.2)	(14 844.9)	(15 929.5)	(16 908.8)	(17 803.9)
Superannuation	(1 791.5)	(1 839.2)	(1 973.9)	(2 023.1)	(1 711.7)
Interest paid	(954.7)	(1 033.8)	(1 249.8)	(1 560.4)	(1 776.2)
Grants and subsidies	(4 600.5)	(4 862.9)	(4 676.3)	(4 551.3)	(4 518.2)
Goods and services	(14 574.1)	(15 630.8)	(15 901.2)	(16 292.3)	(16 737.4)
Other payments	(339.4)	(379.3)	(361.2)	(372.2)	(386.9)
Total payments	**(37 069.4)**	**(38 591.1)**	**(40 091.7)**	**(41 708.1)**	**(42 934.3)**
Net cash flows from operating activities [(a)]	**3 246.5**	**2 652.3**	**2 836.9**	**3 373.5**	**4 070.9**
Cash flows from investing activities					
Non-financial assets					
Purchases of non-financial assets	(7 916.4)	(7 814.0)	(8 012.8)	(7 734.0)	(7 421.1)
Sales of non-financial assets	310.7	326.3	353.3	255.2	233.0
Cash flows from investments in non-financial assets	(7 605.7)	(7 487.7)	(7 659.6)	(7 478.7)	(7 188.0)
Net cash flows from investments in financial assets for policy purposes	565.8	3.5	(2.6)	(22.7)	(25.6)
Net cash flows from investments in financial assets for liquidity purposes	59.2	238.7	(41.2)	(18.2)	(64.1)
Net cash flows from investing activities	**(6 980.7)**	**(7 245.6)**	**(7 703.4)**	**(7 519.6)**	**(7 277.8)**
Cash flows from financing activities					
Advances received (net)	(0.7)	(0.8)	(0.7)	(0.8)	(0.6)
Net borrowings	3 548.4	4 660.4	4 818.0	4 175.1	3 207.1
Deposits received (net)	(18.8)	(47.5)	..	(0.8)	2.5
Other financing (net)	..	..	..	..	..
Net cash flows from financing activities	**3 528.9**	**4 612.2**	**4 817.2**	**4 173.5**	**3 209.0**
Net increase/(decrease) in cash and cash equivalents	**(205.3)**	**18.9**	**(49.3)**	**27.3**	**2.2**
Cash and cash equivalents at beginning of reporting period	3 781.0	3 781.0	3 800.0	3 750.7	3 778.0
Cash and cash equivalents at end of reporting period	**3 575.7**	**3 800.0**	**3 750.7**	**3 778.0**	**3 780.2**

Table 6.6: Non-financial public sector cash flow statement (continued)

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
FISCAL AGGREGATES					
Net cash flows from operating activities	**3 246.5**	**2 652.3**	**2 836.9**	**3 373.5**	**4 070.9**
Net cash flows from investments in non-financial assets	**(7 605.7)**	**(7 487.7)**	**(7 659.6)**	**(7 478.7)**	**(7 188.0)**
Cash surplus / (deficit)	**(4 359.2)**	**(4 835.4)**	**(4 822.7)**	**(4 105.3)**	**(3 117.1)**

Source: Department of Treasury and Finance

Note:
(a) These items are inclusive of goods and services tax.

Table 6.7: Derivation of public non-financial corporations sector GFS cash surplus/(deficit)

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Cash surplus/(deficit)	**(4 362.6)**	**(4 246.3)**	**(4 120.2)**	**(3 479.9)**	**(2 454.0)**
Convergence differences:					
Acquisitions under finance leases and similar arrangements	..	..	..	..	..
GFS Cash surplus/ (deficit) [(a)]	**(4 362.6)**	**(4 246.3)**	**(4 120.2)**	**(3 479.9)**	**(2 454.0)**

Source: Department of Treasury and Finance

Note:
(a) Determined in accordance with the ABS GFS Manual.

Table 6.8: Derivation of non-financial public sector GFS cash surplus/(deficit)

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Cash surplus/(deficit)	**(4 359.2)**	**(4 835.4)**	**(4 822.7)**	**(4 105.3)**	**(3 117.1)**
Acquisitions under finance leases and similar arrangements	(231.4)	..	..	..	(840.1)
GFS Cash surplus/ (deficit) [(a)]	(4 590.6)	(4 835.4)	(4 822.7)	(4 105.3)	(3 957.2)

Source: Department of Treasury and Finance

Note:
(a) Determined in accordance with the ABS GFS Manual.

Table 6.9: Net acquisition of non-financial assets – Public non-financial corporations sector

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Purchases of non-financial assets	5 045.5	4 750.6	4 856.1	4 538.8	3 662.1
Less: Sales of non-financial assets	(126.8)	(144.0)	(145.0)	(129.2)	(73.2)
Less: Depreciation	(968.2)	(1 006.4)	(1 089.4)	(1 154.7)	(1 169.3)
Plus: Change in inventories	(89.0)	41.5	(1.5)	(58.8)	(27.8)
Plus: Other movements in non-financial assets	144.9	168.4	174.4	178.9	156.7
Total net acquisition of non-financial assets	**4 006.4**	**3 810.1**	**3 794.7**	**3 375.0**	**2 548.4**

Source: Department of Treasury and Finance

Table 6.10: Net acquisition of non-financial assets – Non-financial public sector

($ million)	2008-09 Budget	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
Purchases of non-financial assets	7 916.4	7 814.0	8 012.8	7 734.0	7 421.1
Less: Sales of non-financial assets	(310.7)	(326.3)	(353.3)	(255.2)	(233.0)
Less: Depreciation	(2 577.5)	(2 602.6)	(2 764.3)	(2 942.0)	(3 071.4)
Plus: Change in inventories	(87.6)	42.5	(1.1)	(59.1)	(28.1)
Plus: Other movements in non-financial assets	338.1	320.8	224.6	229.2	997.0
Total net acquisition of non-financial assets	**5 278.7**	**5 248.5**	**5 118.7**	**4 706.8**	**5 085.6**

Source: Department of Treasury and Finance

Victoria's 2008-09 Loan Council Allocation

As required under the Uniform Presentation Framework, Victoria is required to publish the Loan Council Allocation (LCA) estimates. The LCA is a measure of each government's net call on financial markets in a given financial year to meet its budget obligations. The method of public release is the responsibility of each individual jurisdiction. Victoria discloses its LCA information through the Financial Report for the State of Victoria, Budget Paper No. 4, *Statement of Finances* and Budget Update.

Table 6.11 compares Victoria's 2008-09 LCA as approved by the Loan Council in March 2008, with the revised LCA based on *2008-09 Budget Update* estimates.

Table 6.11: Loan Council Allocation

($ million)

	2008-09 Nomination	*2008-09 Revised*
General government cash deficit (+)/ surplus (-)	564.9	589.1
Public non-financial corporations sector cash deficit (+)/ surplus (-)	3 732.1	4 246.3
Non-financial public sector cash deficit (+)/ surplus (-) [(a)]	4 297.0	4 835.4
Acquisitions under finance leases and similar arrangements	231.4	..
ABS GFS cash deficit(+)/surplus(-)	4 528.4	4 835.4
Net cash flows from investments in financial assets for policy purposes [(b)]	25.7	3.5
Memorandum items [(c)]	196.0	144.5
Loan Council Allocation	4 698.7	4 976.4
Tolerance limit (2 per cent of non-financial public sector cash receipts from operating activities) [(d)]	792.3	792.3

Source: Department of Treasury and Finance

Notes:

(a) The sum of the surplus/deficit of the general government and public non-financial corporation sector does not directly equal the non-financial public sector surplus due to intersectoral transfers, which are netted out in the calculation of the non-financial public sector figure. Surplus (+)/deficit(-) excludes finance lease acquisitions.

(b) The non-financial public sector surplus/deficit relating to 2008-09 includes net cash flows from investments in financial assets for policy purposes.

(c) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions, such as operating leases, that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that Loan Council has agreed should not be included in LCAs (e.g. the over/under funding of employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities).

(d) A tolerance limit equal to 2 per cent of 'total non-financial public sector cash receipts from operating activities' (2007-08 Budget Update) applies to jurisdictions' LCA nomination and revised LCA at budget time, and between the budget time LCA and LCA outcome. The tolerance limit applying to Victoria in 2008-09 is $792 million (2 per cent of $39 613 million – sourced from 2007-08 Budget Update).

As part of the Loan Council arrangements, the Loan Council has agreed that if at any time a jurisdiction finds that it is likely to exceed its tolerance limit, in either direction, it is required to advise to the Loan Council and, in line with the emphasis of the increased transparency, to make the explanation public. The 2008-09 revised LCA (deficit of $4 976 million) remained within the tolerance limit. The increase of $278 million in the LCA between 2008-09 nomination and 2008-09 revised is due to a revision in the public non-financial corporations sector cash position from $3 732 million deficit to a $4 246 million deficit primarily due to lower than estimated net cash flows from operating activities.

Consistent with the LCA arrangements, the State is required to disclose the details of infrastructure projects with private sector involvement and to report the full contingent exposure, if any. Exposure is to be measured by the government's termination liabilities in a case of private sector default and disclosed as a footnote to, rather than a component of, LCAs. The amount payable will not exceed the fair market value of the project (which is usually calculated by an independent valuer) less any costs incurred by government as a result of the default.

Listed below are details of Victorian Schools Public Private Partnerships (PPP) project, which is expected to be contracted in the 2008-09 financial year.

Victorian Schools Public Private Partnerships Project

On 6 December 2007, the Victorian Premier announced the delivery of a package of new schools in the growth areas of Melbourne that will provide high quality, flexible world class teaching and learning environments to drive excellence in education outcomes. This package of schools would be delivered under the Government's Partnerships Victoria policy if it is shown that delivery by PPP offers value for money compared to the Private Sector Comparator.

These schools form part of the Victorian Schools PPP Project commitment of $1.9 billion TEI over the four years to 2010-11. The Government has committed funding to deliver these schools.

The contract term is expected to be approximately 25 years post construction and commissioning with a common end date for all schools.

Financial close is anticipated by the end of 2008, at which time the nature and magnitude of the service payments can be determined for the forward estimates. It should be noted that no payment will be made until the operational commencement of each facility.

There are no current contingent liabilities. The project contract is expected to include appropriate provisions to compensate the proponent upon early termination taking into account any amounts owing to the State by the proponent.

CHAPTER 7: CONTINGENT ASSETS AND CONTINGENT LIABILITIES

CONTINGENT ASSETS

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

These can be classified into either quantifiable, where the potential economic benefit is known, or non-quantifiable.

Quantifiable contingent assets

($ million)

	2007	*2008* [(a)]
Guarantees, indemnities and warranties	1.3	1.3
Potential extension/early termination of contractual arrangements [(b)]	119.3	..
Legal proceedings and disputes	17.0	3.3
Other [(c)]	112.7	112.1
Total contingent assets	**250.2**	**116.7**

Notes:

(a) There have been no material changes to quantifiable contingent assets since last reported in the 2007-08 Financial Report on the State of Victoria.

(b) The potential early termination of contractual arrangements of $119.3 million recognised in 2006-07 representing any additional costs arising to the Director of Public Transport on early termination of the public transport partnership agreements was not recognised as a contingent asset in 2007-08 as the right to draw on these performance bonds had not been triggered and had expired.

(c) 'Other', includes the EastLink project of $92 million. The remaining amounts in 'Other' relate to smaller individual contingencies.

EastLink

On 14 October 2004, the State entered into a concession deed with ConnectEast to design, construct, finance and operate EastLink. Various performance bonds provided under the concession deed can be drawn by the State in circumstances where the concessionaire (ConnectEast) or one of its contractors fails to meet its obligations. These bonds include a construction bond ($87 million) and an operation phase bond ($5 million). In the event of certain default events, there is potential for the $5 million to increase to $20 million.

Channel Deepening Project Environmental Performance Bond

On 14 December 2007, the Minister for Environment and Climate Change approved the Channel Deepening Project under the *Coastal Management Act 1995*. The approval was subject to a number of conditions, including the Port of Melbourne Corporation providing a $100 million environmental performance bond. The potential impact from this arrangement is that, in the event the bond is called upon, the Minister for Environment and Climate Change (being the beneficiary of the bond) will receive funds up to an amount of $100 million, which are to be used for remedial or recovery works as agreed with the Minister for Roads and Ports.

Non-quantifiable contingent assets

City Link compensable enhancement claims

The Melbourne City Link Concession Deed contains compensable enhancement provisions that enable the Victorian Government to claim 50 per cent of additional revenue derived by City Link Melbourne Limited as a result of certain events that particularly benefit City Link, including changes to the adjoining road network.

On 20 May 2005, the Victorian Government lodged a compensable enhancement claim relating to works to improve the traffic flow on the Westgate Freeway between Lorimer and Montague Streets.

On 29 September 2006, the Victorian Government lodged a compensable enhancement claim relating to works to improve the traffic flow in the vicinity of the intersection of Bulla Road and the Tullamarine Freeway.

Under the Monash Westgate Freeways Improvement project, the Victorian Government’s share of revenue uplifts will be calculated and paid three years after the completion of the project.

EastLink

As indicated above, on 14 October 2004, the State entered into a concession deed with ConnectEast to design, construct, finance and operate EastLink. In addition to the quantifiable contingent assets listed above, there is a non-quantifiable contingent asset relating to the Hand Over Bond through which ConnectEast has an obligation to the State, in certain limited circumstances, to provide a bond to cover project rectification costs to the end of the concession period in 2043.

CONTINGENT LIABILITIES

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.

As with contingent assets, contingent liabilities are also classified as either quantifiable or non-quantifiable.

Quantifiable contingent liabilities

($ million)

	2007	*2008* [(a)]
Guarantees, indemnities and warranties	364.7	338.4
Potential extension/early termination of contractual arrangements	..	..
Legal proceedings and disputes	285.1	349.9
Other	355.8	182.9
Non-general government debt [(b)]	3 678.6	4 516.5
Total contingent liabilities	**4 684.3**	**5 387.7**

Notes:

(a) There have been no material changes to quantifiable contingent liabilities since last reported in the 2007-08 Financial Report on the State of Victoria.

(b) Represents guarantees for loans made by the general government sector to agencies in the public non-financial corporations sector, primarily the water entities and other non-general government sector entities.

Non-quantifiable contingent liabilities

A number of potential obligations, which are non-quantifiable at this time, have been identified by the Government as arising from:

- indemnities provided in relation to transactions, including financial arrangements and consultancy services, as well as for directors and administrators;
- performance guarantees, warranties, letters of comfort, and the like;
- deeds in respect of certain obligations; and
- unclaimed monies which may be subject to future claims by the general public against the state.

Asset sales

Potential exposures are associated with the sale of a number of assets and services where the purchaser was provided with various indemnities and warranties.

Royal Melbourne Showgrounds

A contingent liability exists relative to any claims which may be made against the Showgrounds Nominees Pty Ltd arising from joint venture dealings as outlined in the Development and Operations Agreement for the Royal Melbourne Showgrounds. An undertaking has been given by the joint venture parties to meet the indexed service fees payable to the Concessionaire (Developer) under the Development and Operations Agreement as and when they fall due, subject to the Concessionaire's achievement of defined service standards at the Showgrounds and relevant abatement if there are service failures.

Under the State Support Deed – Core Land, the State undertakes to ensure the performance of the payment obligations in favour of the Concessionaire and the performance of the joint venture financial obligations in favour of the security trustee.

Under the State Commitment to the Royal Agricultural Society (RAS), the State has agreed to support certain obligations of the RAS which may arise out of the Joint Venture Agreement. In accordance with the terms in the State Commitment to the RAS, the State will meet certain RAS obligations, in the form of a loan, if requested by the RAS when the RAS does not have financial capacity to pay and provided the RAS has materially complied with all its material obligations under the Project Objectives Agreement, RAS Events Agreement and other Joint Venture project documents. If any outstanding loan amount remains unpaid at a date which is 25 years after the commencement of the operation term under the Development and Operation Agreement (commencement being 2006), the RAS will be obliged to satisfy and discharge each such outstanding loan amount. This may take the form of the transfer to the State of the whole of the RAS' participating interest in the joint venture.

The State has also entered into an agreement through the State Support Deed – Non-Core Land with Showgrounds Retail Developments Pty Ltd and the RAS whereby the state agrees to support certain payment obligations of the Royal Agricultural Society of Victoria Limited that may arise under the Non-Core Development Agreement. In March 2007, Showgrounds Retail Developments Pty Ltd subsequently assigned all its rights and obligations under these agreements, via an Assignment Deed, to Coles Group Property Developments Ltd.

National Electricity Code Administrator

As part of the wind-up of the National Electricity Code Administrator (NECA), the State of Victoria has undertaken to indemnify the actions of the NECA Directors for a period of seven years upon completion of their tenure.

Public transport rail partnership agreements

The Director of Public Transport, on behalf of the Crown, entered into new partnership contractual arrangements with franchisees to operate rail transport services in the State, operative from 18 April 2004 to November 2009. The following summarises the major contingent liabilities arising from those arrangements.

Contingent liabilities on early termination or expiry of franchise agreement

Franchise assets: to maintain continuity of services, the Director at early termination or expiry of the franchise agreement will either purchase the assets or have the assets transferred to the successor.

Unfunded superannuation: at the early termination or expiry of the contract, the Director will assume any unfunded superannuation amounts (apart from contributions the franchisee is required to pay over the contract term) to the extent that the state becomes the successor operator.

National Express receivership

In December 2002, the Government appointed receivers and managers to the National Express train and tram franchises, in order to protect government interests, ensure continuation of services up to the commencement of new franchise agreements, and deal with any subsequent termination issues.

The Treasurer, under the Receivership Deed of Indemnity, has agreed to indemnify the receivers for debts properly incurred by them in the course of receivership. The Treasurer has also agreed to remunerate the receivers in accordance with the rates set out in the deed.

Melbourne City Link

An outstanding claim exists from Transurban City Link Limited, pursuant to the Melbourne City Link Concession Deed, relating to an alleged Material Adverse Effect in respect of the construction of Wurundjeri Way. Expert determination found in favour of the State. However, the claim has now been appealed to arbitration, which is currently proceeding. VicRoads is defending this claim and is unable to assess the likelihood of success at this time.

EastLink

On 14 October 2004, the State entered into a Concession Deed with ConnectEast to design, construct, finance and operate EastLink. The major non-quantifiable contingent liability arising from the concession deed relates to the Key Risk Management Regime. The Regime relates to the occurrence of certain circumstances that may have a detrimental impact on the concessionaire's ability to achieve its forecast returns. It identifies the areas that enable the concessionaire to claim redress from the State. These may include acts of prevention, failure to support a principal road interface, changes in State law, Native Title and the environmental effects statement.

Native Title

A number of claims have been filed with the Federal Court under the *Native Title Act 1993* that affect Victoria. While many such claims are being processed through the legal system, the Government has committed itself to resolving claims through mediation, where possible. It is not feasible at this time to quantify any future liability.

Department of Education and Early Childhood Development

Indemnities are provided by the Department of Education and Early Childhood Development to the Commonwealth Government, in funding contracts entered with the Commonwealth throughout the year. Each indemnity is limited to $10 million for personal injuries and property damage, and $50 million for damages arising out of internet usage.

Indemnities are also provided for teachers, volunteer workers, school chaplains and school councils. The indemnity for teachers protects them against liability for personal injuries to students.

The *Education Act 1958* provides a comprehensive indemnity to members of school councils for any legal liability, whether in contract, negligence, defamation, etc.

HIH Insurance

The State's quantifiable direct exposures arising from the collapse of the HIH Insurance Group (HIH) are included in the liabilities shown in the financial statements of the entities directly responsible for them. The State's obligations in respect of its builders' warranty insurance rescue package are also shown as direct liabilities of the relevant government entities.

The State also retains some unquantifiable contingent exposures arising from the collapse. These contingent exposures arise primarily through the possibility that the State may be involved in litigation in which it would be entitled to recover damages from third parties. If these third parties were insured by HIH, recovery in full may not be possible.

Land remediation – environmental concerns

In addition to properties for which remediation costs have been provided in these Financial Statements, certain other properties have been identified as potentially contaminated sites. The State does not admit any liability in respect of these sites. However, remedial expenditure may be incurred to restore the sites to an acceptable environmental standard.

Victorian Managed Insurance Authority – Insurance Cover

The Victorian Managed Insurance Authority (VMIA) was established in 1996 as an insurer for departments and participating bodies (predominantly in the general government sector). VMIA provides its client bodies with a range of insurance cover, including for property, public and products liability, professional indemnity and contract works. VMIA re-insures in the private market for losses above $50 million arising out of any one event, up to a maximum for each type of cover (e.g. $1 250 million for property and $750 million for public liability). The risk of losses above these re-insured levels is borne by the State.

Builders' warranty

On 13 March 2002, Victoria and NSW jointly announced a series of reforms to builders' warranty insurance arrangements. This announcement included a commitment to provide a catastrophe fund capable of supporting claims above $10 million. Since builders' warranty insurance commenced, there have been no losses by an insurer to any one builder exceeding this amount. To meet this commitment, the two states offered reinsurance arrangements to all builders' warranty insurers covering claims in respect of any one builder exceeding $10 million, with each of the two states reinsuring claims relating to properties in that state. Victoria has reinsurance agreements giving effect to these arrangements with three insurers. The agreements require the insurers to pay the reinsurance premiums that are estimated to be sufficient for the states to at least break even on these arrangements. However, the State retains an unquantifiable contingent liability for additional claims.

In mid-April 2002, the State agreed to provide temporary (to 30 June 2002) re-insurance support to builders' warranty insurance provider Dexta Corporation following the withdrawal of some of its commercial re-insurance support. While this support was subsequently extended to 30 September 2002, the Government determined there would be no further extension.

The State received re-insurance premiums for this participation and may be required to contribute to payment of re-insured claims, as well as paying management fees. The precise timing and value of these receipts and payments is uncertain, as claims may be made by home owners for up to six and a half years after the arrangement ceases.

Receipts and payments will be contingent on the volume of insurance underwritten and re-insured by 30 June 2002. Based on Dexta's previous levels of activity, the central estimate of the State's gross exposure (i.e. before premium receipts) is not more than $6 million. While the State expects, like the commercial re-insurers who are party to the agreement, to at least break even on these arrangements, the State retains an unquantifiable contingent liability that claims may exceed the central estimate.

Biosolids drying facility

A contract has been entered into to design, build, finance and operate a biosolids drying facility, being a long-term biosolids management solution for Barwon Water. Works approval delays have been experienced by the contractor who is entitled to be compensated by Barwon Water for the delays encountered. Negotiations are currently taking place between Barwon Water and the contractor in relation to the amount of compensation. As negotiations are currently active, reliable estimates of costs are not available.

Gambling licences

In 1992, a gaming operator's licence was issued to the Trustees of the Will and Estate of the late George Adams, now trading as Tatts Group. In 1994, the State issued a wagering and gaming licence to TABCORP Holdings Limited (TABCORP). These licences expire in 2012 and the end-of-licence arrangements are specified in the *Gambling Regulation Act 2003*.

These end-of-licence arrangements include compensation provisions for the licensees predicated on the current licensing arrangements being rolled over for a further period beyond 2012.

On 10 April 2008, the Government announced a new regulatory model for the post-2012 licences. Subject to legislative amendment, the main changes include:

- separating the wagering and gaming licence to license wagering instead, on a stand-alone basis; and
- transitioning from the current gaming operator duopoly to a system where venue operators are licensed to own and operate gaming machines in their own right.

After considering the end-of-licence arrangements in the *Gambling Regulation Act 2003*, the government has formed the view that neither Tatts Group nor TABCORP will be entitled to compensation after the expiration of their current licences.

The government does not intend to alter or amend the provisions in the *Gambling Regulation Act 2003* that deal specifically with the end-of-licence arrangements for Tatts Group and TABCORP.

APPENDIX A: SPECIFIC POLICY INITIATIVES AFFECTING BUDGET POSITION

Appendix A outlines specific government policy initiatives that affect output, asset investment and revenue positions, including Treasurer's Advances, made since the *2008-09 Budget.* The following tables provide details of output and asset initiatives for:

- Government-wide programs; and
- government departments.

Appendix A includes a cross reference between initiatives and their relevant departmental output(s), which aims to indicate clearly the impact of policy decisions on relevant portfolios and reinforce the Government's commitment to greater transparency and accountability in the budget papers.

The figures included are the total cost of decisions. Funding from reprioritisation and existing fund sources have not been deducted from the total cost of the decision.

GOVERNMENT-WIDE INITIATIVES

The following tables provide details of the total cost of government-wide output and asset decisions.

Output initiatives

Table A.1: Output initiatives – Government-wide

($ million)

	2008-09	*2009-10*	*2010-11*	*2011-12*
Major Events	6.7	10.6	29.5	42.0
Securing Jobs for Your Future – Skills for Victoria [(a)]	20.8	40.0	78.3	127.0
Channel Deepening Support Package				
Facilities Improvement Program	0.7	0.7	0.7	..
Grants for Business Support	1.0	1.0	..	..
Mordialloc Structure Plan	0.3	..	..	..
Multi-Stage Tourism Marketing Campaign	0.2	0.2	0.2	..
Small Business Education	0.3	0.3	..	..
Drought Response				
Catchment Management Authority Drought Employment Program	10.0	..	..	..
Community Drought Communications	0.4	..	..	..
Drought Apprenticeship Retention Bonus III	1.9	..	..	..
Drought Extension Support	2.2	..	..	..
Drought Health Services and Community Support	2.8	..	..	..
Drought Response for Community Sport and Recreation Program 2009	2.2	2.2	..	..
Extending the Case Management Approach to Supporting Farmers through Drought and Adjustment	0.5	0.5	..	..
Municipal Rates Subsidy	15.0	..	..	..
On-Farm Productivity Improvement Grants	6.0	..	..	..
Regional Infrastructure Development Fund – Small Towns Development Fund	10.0	..	..	..
Regionally Significant Synthetic Surfaces Program	1.9	1.9	..	..
Water Rate Rebates for Irrigators	57.8	..	..	..
Victorian Alcohol Action Plan				
Accelerated Implementation of the Compliance Directorate	1.2	3.5	0.4	..
Alcohol and Violence Campaign	2.0	..	..	..
Victorian Innovation Strategy				
Biotechnology Strategic Development Plan	5.0	5.0	5.0	5.0
Boosting Highly Innovative Small and Medium Enterprises	7.0	16.0	12.0	5.0
Information and Communication Technology Capability	4.0	12.5	12.5	6.0
Victorian Advanced Resource Recovery Initiative	10.0	..	..	..
Victoria's Science Agenda Investment Fund	22.0	41.0	46.0	36.0
Total output initiatives	**191.8**	**135.2**	**184.5**	**221.0**

Source: Department of Treasury and Finance

Note:
(a) The funding for this initiative is not reflected in the Departmental Initiatives section as it has not been allocated to departments.

Major Events

Funding is provided to expand Government's support of major sporting and cultural events to Victoria.

Securing Jobs for Your Future – Skills for Victoria

Funding is provided under *Securing Jobs for Your Future* to create over 170 000 new training places and deliver more flexibility for individuals, employers and training providers.

This initiative contributes to the:

- Department of Innovation, Industry and Regional Development's Skills output.
- Department of Education and Early Childhood Development's Policy and Regulation output.
- Department of Planning and Community Development's Adult Community Education output.

Channel Deepening Support Package

Funding is provided for a range of initiatives to assist businesses develop appropriate strategies to adapt to changes as a result of the Channel Deepening Project, as well as additional initiatives designed to improve the accessibility, amenity, environmental and recreational values of the Port Phillip Bay and its beaches.

Facilities Improvement Program

Funding is provided to improve facilities used by small business operators and recreational anglers in the Port Phillip and Westernport bays.

This initiative contributes to the Department of Transport's Freight, Logistics, Ports and Marine Development output.

Grants for Business Support

Funding is provided for financial support for companies who face temporary additional adjustment and operating costs as a result of the Channel Deepening Project.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Small Business output.

Mordialloc Structure Plan

Funding is provided to contribute to the preparation of the Mordialloc Structure Plan, which will develop a concept plan for new works and improvements to existing infrastructure in the vicinity of the Mordialloc Pier and the Mordialloc Creek.

This initiative contributes to the Department of Sustainability and Environment's Public Land output.

Multi-Stage Tourism Marketing Campaign

Funding is provided to build on the public relations and marketing campaign to provide a full tourism marketing strategy for the Port Phillip Bay area.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Tourism output.

Small Business Education

Funding is provided for business consultancy and advisory services to assist businesses develop appropriate strategies to adapt to temporary changes as a result of the Channel Deepening Project.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Small Business output.

Drought Response

Funding is provided for a range of initiatives designed to provide further assistance to Victorian farmers, rural communities and businesses in drought affected regions.

Catchment Management Authority Drought Employment Program

Funding is provided to employ people directly affected by the drought, to undertake works to protect and sustain important environment assets on public or private land.

This initiative contributes to the Department of Sustainability and Environment's Natural Resources output.

Community Drought Communications

Funding is provided to inform farmers, individuals and communities about available drought assistance and to facilitate access to programs and services. The initiative will also promote the ways in which affected communities are successfully dealing with drought related problems.

This initiative contributes to the Department of Primary Industries' Sustainable Practice Change output.

Drought Apprenticeship Retention Bonus III

Funding is provided to continue grants of $1 500 for each apprentice to businesses in Exceptional Circumstances declared areas that directly provide services to the farming industry. This program supports rural towns and communities by helping businesses retain rural apprentices.

This initiative contributes to the Department of Primary Industries' Sustainable Practice Change output.

Drought Extension Support

Funding is provided for additional advice and tools to assist farm businesses and rural communities to make informed decisions about the future. The initiative will also provide additional co-ordination and support to assist farmers and communities manage the changing environment.

This initiative contributes to the Department of Primary Industries' Sustainable Practice Change output.

Drought Health Services and Community Support

Funding has been provided to build on the health service system and workforce developments achieved by the 2006-07 and 2007-08 drought programs by integrating good practice into the mainstream service system and developing a more sustainable response to the needs of communities affected by drought and rural change.

Emergency relief assistance in the form of food relief, Christmas hampers and toys will be provided to support families at Christmas time and assistance with back to school costs will be provided at the commencement of the new school year.

This initiative contributes to the Department of Human Services' Community Health Care output.

Drought Response for Community Sport and Recreation Program 2009

Funding is provided to help communities maintain local sports grounds and other sport and recreation facilities through developing sustainable approaches to water management.

This initiative contributes to the Department of Planning and Community Development's Sport and Recreation Sector Development output.

Extending the Case Management Approach to Supporting Farmers through Drought and Adjustment

Funding is provided to extend case management services to support farmers as they adjust to drought and plan for the future. This includes assistance to those from culturally and linguistically diverse backgrounds to access adjustment and drought support services.

This initiative contributes to the Department of Primary Industries' Sustainable Practice Change output.

Municipal Rates Subsidy

Funding is provided for a subsidy of up to 50 per cent on municipal rates and charges payable by eligible farmers who are assessed to be in Exceptional Circumstances and who receive Emergency Payments or Exceptional Circumstances Relief Payments from Centrelink.

This initiative contributes to the Department of Primary Industries' Sustainable Practice Change output.

On-Farm Productivity Improvement Grants

Funding is provided to extend the 2007-08 program to assist farmers in regions most affected by drought to introduce on-farm infrastructure improvements that enhance drought proofing and increase productivity.

This initiative contributes to the Department of Primary Industries' Sustainable Practice Change output.

Regional Infrastructure Development Fund – Small Towns Development Fund

Funding is provided to invest in infrastructure and to boost jobs in small regional towns affected by drought.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Regional Infrastructure Development output.

Regionally Significant Synthetic Surfaces Program

Funding is provided for councils and sports clubs for several 'drought proof' playing and training surfaces to be placed throughout Victoria to allow sporting competitions to continue regardless of the availability of water.

This initiative contributes to the Department of Planning and Community Development's Sport and Recreation Sector Development output.

Water Rate Rebates for Irrigators

Funding has been provided by the Government to offset the first $1 000 of the fixed charge component of water bills for all irrigators and stock and domestic farmers who are receiving less than 30 per cent of their water entitlements as of 1 December 2008. In addition, those irrigators whose water bill is more than $1 000 will receive an additional 50 per cent rebate on the balance of their bills.

This initiative contributes to the Department of Sustainability and Environment's Sustainable Water Management and Supply output.

Victorian Alcohol Action Plan

Funding is provided to reduce alcohol-related harm to individuals, families and the community, through enhancing the *Victorian Alcohol Action Plan* which consists of law enforcement and health measures targeting awareness, prevention, treatment, enforcement, and safety.

Accelerated Implementation of the Compliance Directorate

Funding is provided to accelerate the Compliance Directorate component of the Victorian Alcohol Action Plan, enabling enforcement operations to commence in 2009, 12 months ahead of the original schedule.

This initiative contributes to the Department of Justice's Promoting and Protecting Consumer Interests output.

Alcohol and Violence Campaign

Funding has been provided to increase awareness of the link between alcohol and violence, and promote personal responsibility for actions under the influence of alcohol.

This initiative contributes to the Department of Human Services' Drug Prevention and Control Output.

Victorian Innovation Strategy

Funding is provided for a range of initiatives to enhance and build Victoria's innovation capabilities to support the ageing population and associated health needs, respond to the climate change challenge, and ensure ongoing capacity for long-term growth and to compete internationally.

Biotechnology Strategic Development Plan

Funding is provided to stimulate further growth in the Victorian biotechnology sector. These grants will be used to support the establishment of strategic international alliances, to create a better regulatory environment for product development within the industry, and to invest in infrastructure and skills to boost transformative capacity.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Science and Technology output.

Boosting Highly Innovative Small and Medium Enterprises

Funding is provided for a new grants program to facilitate the development of solutions to the particular challenges faced by Small and Medium Enterprises (SMEs) in the Victorian technology and manufacturing sectors during their establishment and development. The program consists of a number of inter-related actions that will assist innovative SMEs to access research and development skills and services, optimise linkages between industry and innovative Victorian SMEs, and stimulate and encourage research and development and technology product development amongst Victoria's SMEs.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Innovation output.

Information and Communication Technology Capability

Funding is provided for two programs to enhance Victoria's Information and Communication Technology capabilities. The Collaborative Internet Innovation Fund will support leading innovators using new technology to develop new ways of working. The VicFibreLINKS initiative will facilitate co-investment with the telecommunications industry to roll out high-quality, affordable broadband infrastructure across the State.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Innovation output.

Victorian Advanced Resource Recovery Initiative

Funding is provided to explore the provision of new waste recovery technology for metropolitan Melbourne. The establishment of new high-tech waste facilities for processing organic waste will reduce greenhouse emissions produced by landfill.

This initiative contributes to the Department of Sustainability and Environment's Environmental Policy and Climate Change output.

Victoria's Science Agenda Investment Fund

Funding is provided for a new grants program to strengthen Victoria's research precincts through co-investment in research and development infrastructure and platforms, research partnerships and skills. Building on the success of the Government's previous Science, Technology and Innovation initiatives, the new program will focus on supporting research in priority areas, including climate change, energy and health.

This initiative contributes to the Department of Innovation, Industry and Regional Development's Science and Technology output.

Asset Initiatives

Table A.2: Asset initiatives – Government-wide

	($ million)				
	2008-09	*2009-10*	*2010-11*	*2011-12*	*TEI*
Securing Jobs for Your Future – Skills for Victoria [(a)]	3.2	5.0	8.3	8.3	24.8
Channel Deepening Support Package					
Beach Renourishment and Coastal Risk Mitigation	1.0	1.0	1.0	1.0	4.0
Total asset initiatives	**4.2**	**6.0**	**9.3**	**9.3**	**28.8**

Source: Department of Treasury and Finance

Note:

(a) The funding for this initiative is not reflected in the Departmental Initiatives section as it has not been allocated to departments.

Securing Jobs for Your Future – Skills for Victoria

Funding is provided to improve TAFE communication infrastructure, including improving access to information and TAFE broadband in key regions of Victoria.

Channel Deepening Support Package

Refer to the output initiative for a description.

Beach Renourishment and Coastal Risk Mitigation

Funding will be provided to escalate works to protect coastal assets and address the loss of sand at beaches around the Port Phillip Bay, including Port Arlington and North Aspendale.

This initiative contributes to the Department of Sustainability and Environment's Public Land output.

DEPARTMENTAL INITIATIVES

The following tables provide details of output and asset investment decisions for each applicable department.

EDUCATION AND EARLY CHILDHOOD DEVELOPMENT

Output initiatives

Table A.3: Output initiatives – Education and Early Childhood Development

($ million)

	2008-09	*2009-10*	*2010-11*	*2011-12*
Digital Education Revolution	1.6	3.2	3.3	3.4
Non-Government Schools Capital Grants	33.6	19.9	..	..
Sub-total output initiatives	**35.2**	**23.1**	**3.3**	**3.4**
Government-wide initiatives	**..**	**..**	**..**	**..**
Total output initiatives	**35.2**	**23.1**	**3.3**	**3.4**

Source: Department of Treasury and Finance

Digital Education Revolution

Additional funding is provided to assist schools meet the operating costs associated with the computers purchased in the first round of the Commonwealth Government's National Secondary School Computer Fund. This initiative is part of the Commonwealth's *Digital Education Revolution* election commitment.

This initiative contributes to the department’s Middle Years (schools), and Later Years and Youth Transitions outputs.

Non-Government Schools Capital Grants

Funding is provided for capital grants to non-government schools in need. Funding will be available for planning and upgrading or replacement of education facilities to assist in improving student outcomes at these schools.

This initiative contributes to the department’s Early Years (schools), Middle Years (schools), and Later Years and Youth Transitions outputs.

Asset Initiatives

Table A.4: Asset initiatives – Education and Early Childhood Development

($ million)

	2008-09	*2009-10*	*2010-11*	*2011-12*	*TEI*
Modernisation	2.7	2.6	..	..	5.3
Replacement Schools	..	25.5	2.5	..	28.0
Victorian Institute of Educational Leadership	1.5	8.3	..	..	9.8
Total asset initiatives	**4.2**	**36.4**	**2.5**	**..**	**43.1**

Source: Department of Treasury and Finance

Modernisation

Additional funding is provided under the modernisation program for stage two redevelopment at Maffra Secondary College. This program will include a new administration block, a creative arts complex, music, graphic and general purpose classrooms, and an IT space.

This initiative contributes to the department's Middle Years (schools), and Later Years and Youth Transitions outputs.

Replacement Schools

Additional funding is provided under the replacement schools program for the construction of a replacement school for Western Autistic School, and to meet costs associated with the relocation of the Albert Park childcare facility, site remediation and construction of the new Albert Park Secondary College.

This initiative contributes to the department's Middle Years (schools), Later Years and Youth Transitions, and Services to Students outputs.

Victorian Institute of Educational Leadership

Establishment of the Victorian Institute of Educational Leadership will provide high quality leadership development to Victorian school principals, Regional Network Leaders, coaches, support staff and early childhood workers.

This initiative contributes to the department's Early Years (schools), Middle Years (schools), and Later Years and Youth Transitions outputs.

HUMAN SERVICES

Output initiatives

Table A.5: Output initiatives – Human Services

($ million)

	2008-09	*2009-10*	*2010-11*	*2011-12*
Paediatric Intensive Care	3.5	..	..	..
Sub-total output initiatives	**3.5**	**..**	**..**	**..**
Government-wide initiatives	4.8	..	..	..
Total output initiatives	**8.3**	**..**	**..**	**..**

Source: Department of Treasury and Finance

Paediatric Intensive Care

Funding is provided for a new strategy to better manage the State's paediatric and neo-natal intensive care demand in the Royal Children's Hospital.

This initiative contributes to the department's Admitted Services Output.

INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT

Output initiatives

Table A.6: Output initiatives – Innovation, Industry and Regional Development

($ million)

	2008-09	*2009-10*	*2010-11*	*2011-12*
Melbourne Convention and Visitors Bureau and the Business Events Cap	2.5	5.6	10.0	10.2
Victorian Industry and Manufacturing Strategy				
Defence Industry Acceleration Program	2.0	2.0	2.0	2.0
Export Clusters Program	0.8	0.8	1.3	1.3
Financial Services Initiatives	0.3	0.3	0.3	0.3
Industry Transition Fund	25.0	25.0	..	..
Leveraging Global Opportunities Program	1.5	1.5	2.5	2.5
Victorian Automotive Manufacturing Action Plan	0.9	1.6	2.1	2.2
Sub-total output initiatives	**33.0**	**36.7**	**18.2**	**18.4**
Government-wide initiatives	56.1	86.5	105.2	94.0
Total output initiatives	**89.1**	**123.2**	**123.3**	**112.4**

Source: Department of Treasury and Finance

Melbourne Convention and Visitors Bureau and the Business Events Cap

Funding is provided for the Melbourne Convention and Visitors Bureau's operating costs and the delivery of international business event marketing for the new Melbourne Convention Centre.

This initiative contributes to the department's Tourism output.

Victorian Industry and Manufacturing Strategy

Defence Industry Acceleration Program

Funding is provided to assist innovative Victorian defence industries to realise commercialisation opportunities, to encourage industry, defence and academia to work on complex systems integration and engineering requirements and to provide strategic leadership that links government with industry and informs government on defence-related issues and major defence projects.

This initiative contributes to the department's Investment Attraction and Facilitation output.

Export Clusters Program

Funding is provided to enable companies in related areas to build international bargaining power, assist the formation of consortia across a range of industry sectors and to support entry into export markets.

This initiative contributes to the department's Exports output.

Financial Services Initiatives

Funding is provided to support and attract financial services events to Melbourne, promote Victoria's research, innovation, teaching and training capabilities to industry, establish stronger international linkages, boost Victoria's profile in specialist financial services, and chart and promote the capabilities and successes of the sector across Victoria.

This initiative contributes to the department's Sector Development output.

Industry Transition Fund

Funding is provided to invest in plant and equipment that will increase productivity, to assist firms to move to the next-generation of products, to support mergers and acquisitions that create sustainable growth-oriented entities from companies that may not survive on a stand-alone basis in the current economic climate, to retain skills and/or capabilities that may otherwise not survive the economic downturn, but will be required once conditions return to normal, and assist the short-term survival and long-term viability of industries where they underpin the economic viability of local communities, especially in regional Victoria.

This initiative contributes to the department's Investment Attraction and Facilitation output.

Leveraging Global Opportunities Program

Funding is provided to gather market intelligence, target potential investors in strategically significant sectors, investigate trade and investment opportunities in emerging markets, promote major Victorian projects and develop strategic partnerships with other investment promotion agencies.

This initiative contributes to the department's Investment Attraction and Facilitation output.

Victorian Automotive Manufacturing Action Plan

Funding is provided for a business program to develop the international competitiveness of companies at all levels of the supply chain, investment in new technologies, including hybrids and alternative fuels, and identification of opportunities and facilitation of access by Victorian firms into global supply chains.

This initiative contributes to the department's Investment Attraction and Facilitation output.

Asset Initiatives

Table A.7: Asset initiatives – Innovation, Industry and Regional Development

($ million)

	2008-09	*2009-10*	*2010-11*	*2011-12*	*TEI*
Film and Television Studio	15.0	..	..	..	15.0
Victorian Industry and Manufacturing Strategy					
RMIT Advanced Manufacturing Precinct	0.7	5.0	1.4	..	7.0
Sub-total asset initiatives	**15.6**	**5.0**	**1.4**	..	**22.0**
Total asset initiatives	**15.6**	**5.0**	**1.4**	**..**	**22.0**

Source: Department of Treasury and Finance

Film and Television Studio

Funding is provided to support the management of the Melbourne Film and Television Studio.

This initiative contributes to the department's Sector Development output.

Victorian Industry and Manufacturing Strategy

RMIT Advanced Manufacturing Precinct

Funding is provided to develop an advanced manufacturing precinct that will offer practical training experience for the design, development, production, marketing and management specialisations found in the advanced manufacturing sectors.

This initiative contributes to the department's Skills output.

JUSTICE

Output initiatives

Table A.8: Output initiatives – Justice

($ million)

	2008-09	*2009-10*	*2010-11*	*2011-12*
Country Fire Authority – Funding for Operations Positions	1.4	0.8	0.8	0.9
Reducing Court Delays – Supreme Court Accelerated Appointment of Judges	0.8	2.5	0.8	- 0.1
Victoria Police – Safe Streets	2.0	5.0	4.0	..
Victorian Electoral Commission – State By-Elections 2008-09	0.3	..	..	..
Victorian Racing Industry – Regional and Rural Infrastructure Funding	10.0	23.0	10.0	2.0
Sub-total output initiatives	**14.4**	**31.3**	**15.6**	**2.8**
Government-wide initiatives	1.2	3.5	0.4	..
Total output initiatives	**15.6**	**34.7**	**16.0**	**2.8**

Source: Department of Treasury and Finance

Country Fire Authority – Funding for Operations Positions

Funding is provided to the Country Fire Authority (CFA) for the creation of an additional 25 positions for Operations Officers and Operations Managers. The funding represents the Government's share of costs for the additional officers who will provide additional support and leadership to the CFA's volunteer workforce.

This initiative contributes to the department's Emergency Management Capability output.

Reducing Court Delays – Supreme Court Accelerated Appointment of Judges

Funding is provided for the Supreme Court of Victoria to accelerate the appointment of three additional judicial officers, in order to reduce trial delays. The revised profiling will effectively bring forward these appointments by one year.

This initiative contributes to the department's Public Prosecutions, Court Matters and Dispute Resolution, Prisoner Supervision and Support outputs.

Victoria Police – Safe Streets

Funding is provided for Victoria Police to enhance the presence of operational police in the city of Melbourne on Friday and Saturday nights. This will include additional overtime funding and the accelerated recruitment of 50 new police officers provided for in the *2007-08 Budget*.

This initiative contributes to the department's Policing Services output.

Victorian Electoral Commission – State By-Elections 2008-09

Funding is provided to the Victorian Electoral Commission to support the Kororoit State by-election.

This initiative contributes to the department's State Electoral Roll and Elections output.

Victorian Racing Industry – Regional and Rural Infrastructure Funding

Funding is provided to improve race tracks across Victoria in order to assist in securing the long-term future of Victoria's racing industry. The infrastructure improvements will be spread across a number of rural and regional tracks, focusing on the areas of occupational health and safety, water saving and racing infrastructure development.

This initiative contributes to the department's Gaming and Racing Management and Regulation output.

PLANNING AND COMMUNITY DEVELOPMENT

Output initiatives

Table A.9: Output initiatives – Planning and Community Development

($ million)

	2008-09	*2009-10*	*2010-11*	*2011-12*
Ringwood Transit City – Stage 1	0.2	0.4	0.6	..
Targeted Urban Renewal Program	2.0	3.0	..	..
Sub-total output initiatives	**2.2**	**3.4**	**0.6**	**..**
Government-wide initiatives	4.1	4.1	..	..
Total output initiatives	**6.3**	**7.5**	**0.6**	**..**

Source: Department of Treasury and Finance

Ringwood Transit City – Stage 1

Funding is provided for the revitalisation of Ringwood's town centre through the completion of a new town square, improved safety and pedestrian linkages around the Maroondah Highway including a new pedestrian crossing, a new bus interchange at the Ringwood railway station and further work to attract additional investment to the area.

This initiative contributes to the department's Planning, Urban Design and Housing Affordability output.

Targeted Urban Renewal Program

Funding is provided for urban renewal activities, private investment facilitation, urban amenity improvements in market ready activity centres, and planning projects.

This initiative contributes to the department's Planning, Urban Design and Housing Affordability output.

Asset Initiatives

Table A.10: Asset initiatives – Planning and Community Development

($ million)

	2008-09	*2009-10*	*2010-11*	*2011-12*	*TEI*
Ringwood Transit City – Stage 1	11.9	12.0	14.0	..	37.9
Total asset initiatives	**11.9**	**12.0**	**14.0**	**..**	**37.9**

Source: Department of Treasury and Finance

Ringwood Transit City – Stage 1

Refer to the output initiative for a description.

PREMIER AND CABINET

Asset Initiatives

Table A.11: Asset initiatives – Premier and Cabinet

($ million)	2008-09	2009-10	2010-11	2011-12	TEI
Southbank Cultural Precinct Redevelopment	5.5	18.0	65.0	40.0	128.5
Victorian Archive Centre Remedial Works	1.4	2.0	..	..	3.4
Total asset initiatives	**6.9**	**20.0**	**65.0**	**40.0**	**131.9**

Source: Department of Treasury and Finance

Southbank Cultural Precinct Redevelopment

Funding is provided for the refurbishment of Hamer Hall including improved acoustics, staging systems and new auditorium seating as well as new and expanded foyer spaces, improved access to the Yarra River and more sustainable power generation and waste management.

This funding contributes to the department's Arts Portfolio Agencies output.

Victorian Archive Centre Remedial Works

Funding is provided to remediate and repair the Victorian Archive Centre, North Melbourne which houses Victoria's archive and arts collection. The works will address flaws in the building structure and fabric and its sprinkler systems.

This funding contributes to the department's Arts Portfolio Agencies output.

PRIMARY INDUSTRIES

Output initiatives

Table A.12: Output initiatives – Primary Industries

($ million)	2008-09	2009-10	2010-11	2011-12
Fruit Fly Eradication	3.5	..	..	..
Locust Control	7.2	..	..	..
Sub-total output initiatives	**10.7**	**..**	**..**	**..**
Government-wide initiatives	26.0	0.5	..	..
Total output initiatives	**36.7**	**0.5**	**..**	**..**

Source: Department of Treasury and Finance

Fruit Fly Eradication

Funding is provided to implement fruit fly monitoring, fruit tree inspection, spraying, baiting, fruit stripping and ground treatment to eradicate fruit fly outbreaks in northern Victoria and metropolitan Melbourne.

This initiative contributes to the department's Regulation and Compliance output.

Locust Control

Funding is provided for locust control activities in northern Victoria to minimise damage to pastures, cereal and horticulture crops.

This initiative contributes to the department's Regulation and Compliance output.

SUSTAINABILITY AND ENVIRONMENT

Output initiatives

Table A.13: Output initiatives – Sustainability and Environment

($ million)

	2008-09	*2009-10*	*2010-11*	*2011-12*
Fire Suppression	10.0	10.3	10.5	10.8
Sub-total output initiatives	**10.0**	**10.3**	**10.5**	**10.8**
Government-wide initiatives	78.1	..	..	..
Total output initiatives	**88.1**	**10.3**	**10.5**	**10.8**

Source: Department of Treasury and Finance

Fire Suppression

Funding is provided for additional fire management resources to boost prevention and suppression capacity to meet future bushfire challenges.

This initiative contributes to the department's Land and Fire Management output.

Asset initiatives

Table A.14: Asset initiatives – Sustainability and Environment

($ million)

	2008-09	*2009-10*	*2010-11*	*2011-12*	*TEI*
Government-wide initiatives	1.0	1.0	1.0	1.0	4.0
Total asset initiatives	**1.0**	**1.0**	**1.0**	**1.0**	**4.0**

Source: Department of Treasury and Finance

Refer to the Channel Deepening Support Package initiative for a description.

TRANSPORT

Output initiatives

Table A.15: Output initiatives – Transport

($ million)

	2008-09	*2009-10*	*2010-11*	*2011-12*
New Ticketing Solution [(a)]	13.7	49.9	45.8	11.1
North East Rail Revitalisation	13.9	6.0	5.2	5.4
Regional Rolling Stock	..	..	2.5	7.4
Sub-total output initiatives	**27.6**	**55.9**	**53.5**	**23.9**
Government-wide initiatives	0.7	0.7	0.7	..
Total output initiatives	**28.3**	**56.6**	**54.2**	**23.9**

Source: Department of Treasury and Finance

Note:
(a) This initiative includes funding beyond 2011-12.

New Ticketing Solution

Funding is provided for the New Ticketing Solution project to aid in the further development, management and implementation of the myki initiative.

This initiative contributes to the department's Public Transport Infrastructure Development output.

North East Rail Revitalisation

Funding is provided to convert 200-kilometres of broad gauge track to standard gauge, delivering a first-class passenger and rail freight link between Australia's economic hubs, Melbourne and Sydney, and improved passenger rail services between Melbourne and Albury-Wodonga.

This initiative contributes to the department's Public Transport Infrastructure Development output.

Regional Rolling Stock

Funding is provided to purchase 28 additional regional rolling stock carriages and undertake associated works including the expansion of stabling facilities, boosting maintenance and increasing the staffing level. These additional carriages will add more than 2 000 extra seats across the regional network. This initiative will reduce congestion on regional rail lines by increasing capacity in the Regional Fast Rail corridors.

This initiative contributes to the department's Rural and Regional Public Transport Services output.

Asset Initiatives

Table A.16: Asset initiatives – Transport

($ million)	2008-09	2009-10	2010-11	2011-12	TEI
Country Rail Freight Network [(a)]	25.6	13.1	..	..	38.7
Dynon Port Rail Link	24.6	5.6	..	..	30.3
New Ticketing Solution [(b)]	79.4	52.6	32.7	..	177.7
North East Rail Revitalisation [(c)]	..	5.4	..	..	5.4
Port of Melbourne Rail Access Improvement Package	..	23.5	..	..	23.5
Regional Rolling Stock [(d)]	62.6	27.0	56.6	61.1	215.0
Wodonga Rail Bypass [(e)]	..	16.5	10.0	..	26.5
Total asset initiatives	**192.2**	**143.7**	**99.3**	**61.1**	**517.1**

Source: Department of Treasury and Finance

Notes:
(a) Total project cost of $38.7 million includes savings available from the upgrade of Gold Lines of $5.3 million.
(b) Includes additional funding provided in 2007-08 year.
(c) TEI for this project is $59.8 million including funding previously approved for Rail Gauge Standardisation.
(d) TEI is $215 million of which $7.65 million is allocated in 2012-13.
(e) Total State contribution to the Wodonga Rail Bypass is $111.5 million.

Country Rail Freight Network

Funding is provided to upgrade rail lines identified as Silver Lines under the Rail Freight Network Review. These lines include Benalla-Oaklands, Quambatook-Manangatang, Charlton-Sealake, Warracknabeal-Hopetoun and Ouyen-Murrayville. This will increase the speed and efficiency of the rail freight network.

This initiative contributes to the department’s Public Transport Infrastructure Development output.

Dynon Port Rail Link

Funding is provided to ensure that environmental and rail operator standards are met.

This initiative contributes to the department’s Freight, Logistics, Ports and Marine Development output.

New Ticketing Solution

Refer to the output initiative for a description.

North East Rail Revitalisation

Refer to the output initiative for a description.

Port of Melbourne Rail Access Improvement Package

Funding is provided to construct rail tracks between the Port of Melbourne and the Dynon/North Dynon terminals, as well as Melbourne's south east. This initiative will improve the movement of freight trains and containers in and out of Port Melbourne.

This initiative contributes to the department's Public Transport Infrastructure Development output.

Regional Rolling Stock

Refer to the output initiative for a description.

Wodonga Rail Bypass

Funding is provided to remove the rail line from the centre of Wodonga. This initiative will improve the passenger and rail freight link between Melbourne and Sydney, and passenger rail services between Melbourne and Albury Wodonga.

This initiative contributes to the department's Public Transport Infrastructure Development output.

REVENUE INITIATIVES

Table A.17: Revenue initiatives

($ million)

	2008-09	*2009-10*	*2010-11*	*2011-12*	*Total*
Growth Areas Infrastructure Contribution	..	76.5	51.3	46.8	174.6
Land Transfer Duty Avoidance	1.0	2.0	2.0	2.0	7.0
Taxi Licences – Conventional and Wheelchair Accessible	..	146.0	47.4	..	193.4
Total revenue initiatives	**1.0**	**224.5**	**100.7**	**48.8**	**375.0**

Source: Department of Treasury and Finance

Growth Areas Infrastructure Contribution

The implementation of the November 2005 decision on infrastructure funding for growth areas. The Growth Areas Infrastructure Contribution will partly fund the provision of infrastructure in growth areas and enable a more timely provision of facilities and services.

Land Transfer Duty Avoidance

The Government will introduce legislation to close a loophole which has allowed the use of complex long-term lease arrangements to escape stamp duty liability. Currently, long-term lease schemes allow a small number of parties to use and control leased land equivalent to ownership, without having to pay the appropriate land transfer duty. These changes will bring Victoria in line with other jurisdictions and are not expected to lead to significant additional duty being collected.

Taxi Licences – Conventional and Wheelchair Accessible

Greater assistance will be provided to those who rely on wheelchair taxi services, with the release of a further 330 wheelchair accessible taxi licences and a doubling of the Multi Purpose Taxi Program's trip and annual caps. This will reduce waiting times and increase the availability of taxis.

An additional 200 conventional taxi licences into the greater Melbourne area have also been released to address the undersupply of taxis, particularly at peak times.

These reforms are due in part to the Government's response to the Essential Services Commission's *Taxi Fare Review 2007-08.*

APPENDIX B: TAX EXPENDITURES AND CONCESSIONS

TAX EXPENDITURES

Tax expenditures are tax concessions granted to certain taxpayers, activities or assets, which are a deviation from the normal taxation treatment. This includes tax free thresholds and can also take the form of exempting or applying a lower rate, deductions or rebate of a tax for a certain class of taxpayer, activity or asset (this excludes generally applying marginal tax rates).

Table B.1 shows aggregate tax expenditure estimates by the main tax categories for the period 2007-08 to 2011-12. The *2008-09 Budget Update* estimate for total tax expenditures for 2008-09 is $2 841 million, $157 million higher than the $2 684 million estimated in the *2008-09 Budget*. The variations from the estimates published in the *2008-09 Budget* are mainly associated with land tax and are due to higher than expected land revaluations.

Table B.1: Aggregate tax expenditures (excluding thresholds) by type of tax[(a)]

($ million)

	2007-08 Estimate	*2008-09 Estimate*	*2009-10 Estimate*	*2010-11 Estimate*	*2011-12 Estimate*
Land tax	1 198	1 749	1 708	1 667	1 627
Payroll tax	730	752	784	813	842
Gambling tax	76	78	82	86	89
Motor vehicle taxes	75	79	82	85	88
Other stamp duties	152	140	172	190	186
Congestion levy	41	43	44	45	46
Total estimated tax expenditures	**2 273**	**2 841**	**2 871**	**2 886**	**2 880**

Source: Department of Treasury and Finance

Note:
(a) Figures are estimates provided by each relevant department.

CONCESSIONS

Concessions are a direct budget outlay or reduction in government charges that have the effect of reducing the price of a good or service for particular groups. Certain characteristics of the consumer, such as possession of a Commonwealth pension card or a health care card, are the basis for entitlement. Concessions allow certain groups in the community to access and/or purchase important amenities like energy, health and transportation at a cheaper rate or at zero cost.

Table B.2 classifies the major concessions provided by the Victorian Government by the various categories. The current estimated total value of concessions for 2008-09 is $1 189 million, $105 million lower than the $1 294 million estimated in the *2008-09 Budget*. The main reason for the lower estimate is that the student transport (conveyance allowance) and the school start bonus have been removed from the table. As the education programs are not income tested and are potentially available to all students, they do not meet the definition of concessions.

Table B.2 Concessions by category[(a)]

($ million)

	2006-07 Estimate	*2007-08 Estimate*	*2008-09 Estimate*
Energy, municipal rates, water and sewerage	257	268	290
Education	63	70	73
Health	447	502	533
Hardship assistance	18	23	34
Transport	236	249	258
Total for items estimated	**1 020**	**1 113**	**1 189**

Source: Department of Treasury and Finance

Note:
(a) Figures include the cost of administration. Figures are estimates provided by each relevant department.

APPENDIX C – SENSITIVITY ANALYSIS TABLE

INTRODUCTION

The sensitivity analysis estimates the impact on income, expenses and the net result from transactions associated with variations to forecasts of selected economic and financial variables. The major variables that affect Victoria's net result from transactions are economic growth, employment, consumer prices, wages, enterprise bargaining agreements, domestic and overseas share prices, property prices and volumes and interest rates.

To assess sensitivity to change, the level of the economic variable in each case is assumed to be one per cent higher than expected in the budget year, before continuing to grow at the previously forecast rate. For interest rates, the assumption is that they are one percentage point higher than assumed in the budget year and remain one percentage point above the budget assumptions in subsequent years.

It is assumed during the analysis of each variable that all other variables follow their forecast growth. As such, the analysis captures the effect of changing only one variable at a time, and does not allow for the likelihood that other variables would also change. For example, an increase in consumer prices could be expected to affect interest rates, wage claims and other economic variables.

The sensitivity analysis in Table C.1 presents the sensitivity of both the net result from transactions and the net result to selected economic and financial indicators.

Table C.1: Impact on the general government fiscal results of selected economic indicators being one per cent higher than expected from 2008-09[(a)(b)(c)]

($ million)

	2008-09 Estimate	*2009-10 Estimate*	*2010-11 Estimate*	*2011-12 Estimate*
GSP				
Income from transactions	164	171	180	188
Expenses from transactions	-4	-10	-17	-23
Net result from transactions	**168**	**182**	**197**	**211**
Other economic flows	..	..	..	..
Net result	**168**	**182**	**197**	**211**
Employment				
Income from transactions	45	47	50	53
Expenses from transactions	-1	-4	-7	-9
Net result from transactions	**46**	**51**	**57**	**62**
Other economic flows	..	..	..	..
Net result	**46**	**51**	**57**	**62**
Consumer prices [(d)]				
Income from transactions	276	286	297	309
Expenses from transactions	114	119	116	114
Net result from transactions	**162**	**167**	**181**	**194**
Other economic flows	-116	..	..	..
Net result	**46**	**167**	**181**	**194**
Average weekly earnings				
Income from transactions	45	47	50	53
Expenses from transactions	-1	-4	-7	-9
Net result from transactions	**46**	**51**	**57**	**62**
Other economic flows	..	..	..	..
Net result	**46**	**51**	**57**	**62**
Enterprise bargaining agreements [(e)]				
Income from transactions	..	..	..	..
Expenses from transactions	147	192	213	234
Net result from transactions	**-147**	**-192**	**-213**	**-234**
Other economic flows	-167	..	..	..
Net result	**-314**	**-192**	**-213**	**-234**
Domestic share prices				
Income from transactions	..	..	..	..
Expenses from transactions	..	-4	-4	-4
Net result from transactions	**..**	**4**	**4**	**4**
Other economic flows	49	..	..	..
Net result	**49**	**4**	**4**	**4**

Table C.1: Impact on the general government fiscal results of selected economic indicators being one per cent higher than expected from 2008-09[(a)(b)(c)] (continued)

($ million)

	2008-09 Estimate	*2009-10 Estimate*	*2010-11 Estimate*	*2011-12 Estimate*
Overseas share prices				
Income from transactions	..	..	..	..
Expenses from transactions	..	-3	-3	-3
Net result from transactions	**..**	**3**	**3**	**3**
Other economic flows	42	..	..	..
Net result	**42**	**3**	**3**	**3**
Property prices				
Income from transactions	44	46	70	71
Expenses from transactions	-1	-5	-9	-13
Net result from transactions	**45**	**51**	**79**	**84**
Other economic flows	16	..	..	..
Net result	**61**	**51**	**79**	**84**
Property volumes				
Income from transactions	31	33	37	38
Expenses from transactions	-1	-3	-5	-7
Net result from transactions	**32**	**36**	**42**	**45**
Other economic flows	..	..	..	..
Net result	**32**	**36**	**42**	**45**
Interest rates [(f)]				
Income from transactions	28	34	33	32
Expenses from transactions	3	79	108	137
Net result from transactions	**25**	**-45**	**-75**	**-105**
Other economic flows	2 739	..	..	..
Net result	**2 764**	**-45**	**-75**	**-105**

Source: Department of Treasury and Finance

Notes:

(a) A positive number for income from transactions denotes an increase in revenue. A positive number for expenses from transactions denotes an increase in expenses (and hence a reduction in the net result from transactions and net result). A positive number for other economic flows represents an increase in revenue. A positive number for the net result from transactions and net result also denotes an increase in revenue. Numbers may not balance due to rounding.

(b) The sensitivity from a one per cent lower than expected outcome of an economic variable, would in most instances, simply be the opposite of the impact shown in the table. However, for some results, the impacts of changes are not symmetrical and therefore care should be exercised when using the table to estimate the impact of lower than expected economic variables.

(c) Only reasonably quantifiable data have been included in the analysis.

(d) Reflecting the government's departmental funding arrangements, it is assumed that an increase in consumer prices within the Budget year does not impact on employee entitlements.

(e) Represents a one per cent increase in all government enterprise bargaining agreements.

(f) Assumes a one percentage point increase across the entire term structure, i.e. short and long rates, over the forward estimates period.

Sensitivity to economic growth

Higher than expected gross state product (GSP) is assumed to be associated with higher household consumption, leading to higher goods and services tax (GST) grant revenue and taxation revenue. This would increase both the net result from transactions and the net result.

Sensitivity to employment

Higher than expected employment is assumed to result in additional payroll tax revenue, and would increase both the net result from transactions and the net result.

Sensitivity to consumer prices

The impact of higher consumer prices is assumed to lead to higher Commonwealth-sourced revenue (due to indexation), as well as higher GST and taxation revenue as the value of tax bases rises in nominal terms. However, the higher revenue is partly offset by the higher cost of supplies and services, and some increases in outlays on grants and transfers. Reflecting the operation of the government's departmental funding arrangements, this increase in expenses is limited to the extent that departments can fund it from increased revenue from specific purpose grants and sales of goods and services. Overall, there is a positive impact on the net result from transactions.

The increase in consumer prices would also result in an immediate increase in the superannuation liability which would adversely affect the net result by way of an actuarial loss.

Sensitivity to average weekly earnings

A rise in the level of economy-wide wages would result in higher payroll tax revenue, contributing to an increase in the net result from transactions and net result. The government's enterprise bargaining agreements are assumed to be unchanged over the projection period.

Sensitivity to enterprise bargaining agreements

Enterprise bargaining agreements have the potential to pose a substantial risk to Victoria's budget position. The government's public sector wages funding policy seeks to maintain the real value of wage increases and seeks productivity offsets for higher wage outcomes to minimise the risk to the budget. An across-the-board rise in the government's enterprise bargaining agreements in excess of the level set out in its wages policy would result in an increase in employee entitlements and a corresponding decline in the net result from transactions.

The increased employee entitlements would increase the value of the superannuation liability and result in a reduction in the net result for the budget year. The higher superannuation liability would flow through to an increase in the superannuation expense in the remaining out-years.

Sensitivity to domestic and overseas share prices

The State's public financial corporations (PFCs) and superannuation funds have holdings of domestic and international shares as part of their respective investment portfolios. Higher domestic and international share prices therefore raise the profits of the PFCs and reduce the value of the superannuation liability due to the increase in superannuation fund assets.

The net result from transactions responds positively to increases in share prices as PFC income tax equivalents (ITEs) rise with profits. Furthermore, the higher than expected level of superannuation fund assets also reduces the superannuation expense beyond the budget year, thereby improving the net result from transactions.

Sensitivity to property prices

Higher property prices have an immediate impact on the net result from transactions through increased collections of stamp duty on land transfer revenue. At the same time, the value of the superannuation liability decreases (due to the increased value of holdings of property in the investment portfolio of superannuation funds) which gives rise to an actuarial gain thereby increasing the net result. In later years, the higher property prices continue to be reflected in higher stamp duty on land transfer and land tax revenues, while the previous increase in superannuation assets reduces ongoing superannuation expenses, all of which increase the net result from transactions.

Sensitivity to property volumes

Higher property transaction volumes would increase stamp duty on land transfer revenue leading to a rise in the net result from transactions and net result.

Sensitivity to interest rates

A one percentage point increase in interest rates is assumed to reflect an increase in the cash rate of one percentage point over the entire forward estimates period, resulting in a one percentage point increase across the entire term structure.

The increase in interest rates reduces the valuation of long term liabilities of the PFCs and raises measured profits of these entities for distribution to the general government (GG) sector through ITEs. This is partly offset by lower public non-financial corporation dividends due to higher borrowing costs, as well as an increase in the borrowing costs of the GG sector.

At the same time, the increase in interest rates reduces the value of the superannuation liability, giving rise to an actuarial gain. In terms of ongoing superannuation expenses, the impact of a higher discount rate on service costs is more than offset by an increase in the annual interest expense on the superannuation liability going forward, leading to an increase in the superannuation expense. Accordingly, both the net result from transactions and the net result fall by the end of the forward estimates.

APPENDIX D: REQUIREMENTS OF THE *FINANCIAL MANAGEMENT ACT 1994*

The *Financial Management Act 1994* (the Act) requires the Minister to prepare a budget update for tabling in Parliament each financial year. The provisions of the Act have been complied with in the *2008-09 Budget Update*.

Table D.1 details the statements required to be included in this document under the provisions of the Act together with appropriate chapter references.

Table D.1: Statements required by the *Financial Management Act 1994* and their location in the *2008-09 Budget Update*

Relevant section of the Act and corresponding requirement	*Location*
Sections 23 E-G	
Statement of financial policy objectives and strategies for the year.	Chapter 1, *Financial Policy Objectives and Strategy*
Sections 23 H-N	
Estimated financial statements for the year comprising: – an estimated statement of financial performance over the year; – an estimated statement of financial position at the end of the year; – an estimated statement of cash flows for the year; and – a statement of the accounting policies on which these statements are based and explanatory notes.	Chapter 5, *Estimated Financial Statements and Notes* (Estimated operating statement, balance sheet and statement of cash flows provided as per AASB 1049)
Accompanying statement to estimated financial statements which: – outlines the material economic assumptions used in preparation of the estimated financial statements;	Chapter 2, *Economic Conditions and Outlook* and Chapter 5, *Estimated Financial Statements and Notes*

Table D.1: Statements required by the *Financial Management Act 1994* and their location in the *2008-09 Budget Update* *(continued)*

Relevant section of the Act and corresponding requirement	*Location*
– discusses the sensitivity of the estimated financial statements to changes in these assumptions;	Appendix C, *Sensitivity Analysis Table*
– provides an overview of estimated tax expenditures for the financial years covered by the estimated financial statements; and	Appendix B, *Tax Expenditures and Concessions*
– provides a statement of the risks that may have a material effect on the estimated financial statements.	Chapter 2*, Economic Conditions and Outlook*; Chapter 3, *Budget Position and Outlook* and Chapter 7 *Contingent Assets and Contingent Liabilities*

STYLE CONVENTIONS

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage changes in all tables are based on the underlying unrounded amounts.

The notation used in the tables and charts is as follows:

LHS	left-hand-side
RHS	right-hand-side
s.a.	seasonally adjusted
n.a. or na	not available or not applicable
Cat. No.	catalogue number
1 billion	1 000 million
1 basis point	0.01 per cent
nm	new measure
..	zero, or rounded to zero
tbd	to be determined
ongoing	continuing output, program, project etc
(xxx.x)	negative numbers

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2008-09
Budget Update
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State Government Victoria

Department of
Treasury and Finance