



# 2009-10 Budget Update

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Victorian Budget Overview

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**Budget Update**



Presented by

**John Lenders, MP**

Treasurer of the State of Victoria

For the information of Honourable Members



# TABLE OF CONTENTS

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<b>Overview</b> .....	<b>1</b>
<b>Chapter 1: Economic and fiscal strategies and objectives</b> .....	<b>3</b>
Sustainable fiscal strategy.....	4
Operating surplus.....	5
Infrastructure.....	7
Service delivery.....	8
Taxation.....	9
Net financial liabilities.....	11
<b>Chapter 2: Economic conditions and outlook</b> .....	<b>13</b>
International economic conditions and outlook.....	14
Australian economic conditions and outlook.....	15
Victorian economic conditions and outlook.....	15
Risks to the outlook.....	18
<b>Chapter 3: Budget position and outlook</b> .....	<b>19</b>
General government sector.....	21
Non-financial public sector.....	39
<b>Chapter 4: Economic reform agenda</b> .....	<b>45</b>
Boosting the skills of the workforce.....	46
Improving business competitiveness.....	47
Facilitating private sector investment.....	50
Improving the efficiency of government's own operations.....	51
Addressing the climate change challenge.....	52
Reform of Commonwealth-State financial relations.....	52
Further reform is needed to boost competitiveness.....	53
<b>Chapter 5: Estimated financial statements and notes</b> .....	<b>55</b>
Notes to the estimated financial statements.....	62
<b>Chapter 6: Supplementary uniform presentation framework tables</b> .....	<b>99</b>
<b>Chapter 7: Contingent assets and contingent liabilities</b> .....	<b>117</b>
Contingent assets.....	117
Contingent liabilities.....	119
<b>Appendix A: Specific policy initiatives affecting budget position</b> .....	<b>127</b>
Government-wide initiatives.....	128
Departmental initiatives.....	142
Education and Early Childhood Development.....	142
Health.....	144
Human Services.....	145
Innovation, Industry and Regional Development.....	145
Justice.....	147

Planning and Community Development .....	148
Premier and Cabinet .....	149
Primary Industries .....	150
Sustainability and Environment .....	151
Transport.....	152
Treasury and Finance .....	155
Revenue initiatives .....	156
<b>Appendix B: Tax expenditures and concessions .....</b>	<b>159</b>
Tax expenditures.....	159
Tax concessions .....	160
<b>Appendix C: Sensitivity analysis table.....</b>	<b>161</b>
Introduction .....	161
<b>Appendix D: Requirements of the <i>Financial Management Act 1994</i>.....</b>	<b>167</b>
<b>Style conventions.....</b>	<b>169</b>

## OVERVIEW

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The *2009-10 Budget Update* is a mid-cycle review of progress against budget objectives and settings. It reports on the revised fiscal position, reflecting developments in the economic environment and decisions taken by the Victorian Government since the May budget.

In May, the Government delivered a fiscally responsible budget consistent with maintaining Victoria's triple-A credit rating, despite being released in a period of global financial crisis. This was achieved while also securing jobs and delivering a record infrastructure program. The budget and decisions taken since have also supported key services in health, education and community safety – including 120 more police – and assisted bushfire recovery and preparedness.

While the Australian and Victorian economies have not been immune to the global financial crisis, they have been more resilient than many other advanced economies in weathering these impacts. This strength has been underpinned by a number of factors. At the national level, supportive monetary policy settings and the Commonwealth's temporary fiscal stimulus, a healthy banking system and the relative strength of some of our major trading partners in Asia, have been contributing factors.

For Victoria, our partnership with the Commonwealth Government to deliver the largest infrastructure program in Victoria's history combined with our sound fiscal management and active economic reform program has also helped to moderate the impact of the downturn. The infrastructure program in particular has helped to protect jobs, support economic activity and position the State for recovery by building capacity and long-term competitiveness. The partnership with the Commonwealth will continue in the future with major commitments on the Regional Rail Link and Parkville Comprehensive Cancer Centre projects, which will deliver significantly enhanced services to Victorians.

Since the May budget, there have been emerging signs that the global economy is beginning to stabilise. Victorian economic growth is forecast to be higher than at budget time (see following table). Employment has also been unexpectedly resilient as employers shed hours rather than jobs. However, the outlook remains highly uncertain as the impact of the global recession continues to be felt and the ensuing global recovery remains sluggish.

Victoria's better than expected economic performance since the May budget has led to a revised budget forecast. The 2009-10 operating surplus has been revised upward to \$262 million, and the operating surplus over the forward estimates is an average of \$802 million higher per year (see table below).

Borrowings remain at sustainable levels with General Government (GG) net debt now projected to be 4.9 per cent of gross state product by 30 June 2013. This is lower than projected in the May budget, reflecting prudent financial management and improved economic growth (see table below). GG net financial liabilities at 30 June 2013 have also been revised down from 15.5 per cent of gross state product (GSP) in May to 13.5 per cent of GSP.

While the update reflects Victoria's improved economic and fiscal position, the outlook is still uncertain. It is important that governments continue to maintain strong sustainable finances through firm management of underlying expenditure growth and by maintaining borrowings at sustainable levels. There is also a need for governments to pursue an active economic reform program to ensure the policy environment supports and makes room for stronger growth in private sector activity.

The Victorian Government's actions to date, and commitment to fiscal responsibility, mean that Victoria is well placed to take advantage of the economic recovery and to continue providing key services to Victorian families and communities.

### Overview of key economic and financial indicators <sup>(a)</sup>

	2009-10 Forecast	2010-11 Forecast	2011-12 Forecast	2012-13 Forecast
Real gross state product <sup>(b)</sup>	1.50 (0.25)	2.50 (2.25)	3.00	3.00
Unemployment rate <sup>(c)</sup>	6.50 (7.00)	6.75 (7.75)	6.75 (7.75)	6.75 (7.75)
GG operating surplus <sup>(d)</sup>	262 (165)	925 (195)	739 (290)	1790 (562)
GG net debt to GSP <sup>(e)</sup>	3.5 (3.7)	4.5 (4.7)	5.1 (5.3)	4.9 (5.1)

Source: Department of Treasury and Finance

#### Notes:

- (a) Figures in brackets are forecasts from the 2009-10 Budget.
- (b) Year-average per cent change on previous year, rounded to the nearest 0.25 percentage point.
- (c) Year-average level, per cent.
- (d) \$ million.
- (e) Per cent as at 30 June, commencing from 30 June 2010 through to 30 June 2013.



## CHAPTER 1: ECONOMIC AND FISCAL STRATEGIES AND OBJECTIVES

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- The Victorian economy has been more resilient to the global recession than many other advanced economies. Since the May budget, the global economic outlook has stabilised. However, the outlook remains uncertain with risks of continuing weakness in the global and local economy.
- The 2009-10 operating surplus has been revised upward to \$262 million since the *2009-10 Budget* estimate of \$165 million. The operating surplus is an average of \$802 million higher per year over the forward estimates, largely driven by higher revenue including funding for the Commonwealth Government's contribution to the Regional Rail Link and the Parkville Comprehensive Cancer Centre.
- Upward revisions to state taxation and GST revenue are consistent with the improved economic outlook. The upward revisions to revenue will assist in bolstering the State's finances and assist in restoring the budget's capacity to respond to future demands or shocks.
- The Victorian Government's response to the global recession has focused on securing jobs and investing for the future. In particular, the State's substantial infrastructure investment program has supported confidence and helped reduce the impact of the substantial falls in business investment expected at the time of the *2009-10 Budget*. However, business investment levels are likely to remain subdued in the near term.
- The Victorian Government is continuing to deliver key services and respond to high priority, immediate community needs including those associated with the 2009 Victorian bushfires, boosting child protection and family services, employing 120 more police and responding to Victoria's ongoing drought.
- Net infrastructure investment in the general government sector is projected to be \$6.9 billion in 2009-10 and an average of \$5.0 billion each year in the forward estimates period.
- Net debt is projected to be 4.9 per cent of Gross State Product (GSP) by 30 June 2013, reflecting a fall from the peak of 5.1 per cent in 2011-12. Net debt forecasts as a percentage of the economy and in dollar terms are now lower than projected in the *2009-10 Budget*.
- Borrowings remain at responsible levels and Victoria's triple-A credit rating was reaffirmed by Moody's Investors Service in January 2009 and Standard & Poor's in September 2009.

Since the *2009-10 Budget* was published, the Victorian economy has shown more resilience than many other advanced economies in dealing with the global recession. Consequently, economic growth is forecast to be higher than expected at the time of the May budget. However, the outlook remains uncertain. Global economic conditions are weak, the rapidly rising Australian dollar could dampen activity and there are possible inflationary risks from the current stimulatory policy settings. Rebounding commodity and asset prices and associated wealth and confidence may, on the other hand, provide upside risks to the domestic economy.

The Victorian Government's response to the economic downturn has focused on securing jobs and enhancing Victoria's competitiveness so that the State is well placed to take advantage of the economic recovery. The Government is also continuing its active reform program aimed at addressing longer-term challenges.

Victoria's resilience to the global recession has been supported by the Government's fiscal strategy and sound financial management. The Government is committed to maintaining the State's triple-A credit rating, ensuring a sustainable operating balance and continuing to support confidence and economic growth.

Further detail on the Government's fiscal strategy is provided in the following sections, and further detail on the economic outlook and the economic reform program are provided in Chapter 2, *Economic Conditions and Outlook* and Chapter 4, *Economic Reform Agenda*.

## **SUSTAINABLE FISCAL STRATEGY**

The Victorian Government's fiscal strategy is underpinned by a set of key short and long-term financial policy objectives. These objectives are built on the following principles of sound fiscal management set out in the *Financial Management Act 1994*:

- 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.

The Government's short and long-term financial objectives and targets are summarised in Table 1.1 below. Further details on the objectives and how the Government will continue to meet these objectives is provided in the following sections.

**Table 1.1: 2009-10 Financial objectives and strategies**

<i>Objective</i>	<i>Short-term target</i>	<i>Long-term target</i>
Operating surplus	Operating surplus of at least \$100 million in each year <sup>(a)</sup> .	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 triple-A credit rating.	Maintain state government net financial liabilities at prudent levels.

*Source: Department of Treasury and Finance*

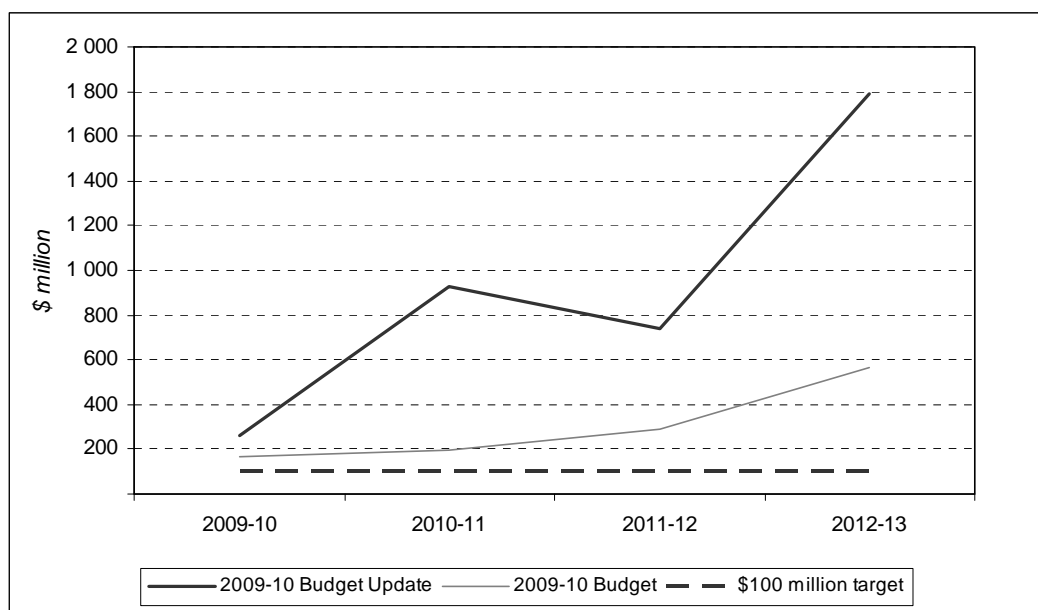
*Note:*

(a) *As discussed in previous publications, the Government remains committed to returning its budgeted operating surplus to at least 1 per cent of revenue.*

## **OPERATING SURPLUS**

The Government remains committed to achieving its short and long-term operating surplus targets and has maintained a strong operating position despite the impact of the global recession. The Government is forecasting an operating surplus (net result from transactions) of \$262 million in 2009-10 and an average of \$1.2 billion each year over the forward estimates period (see Chart 1.1). The surplus profile primarily reflects significant new Commonwealth funding for infrastructure which is explained in further detail in Chapter 3. The operating surplus is 0.6 per cent of revenue in 2009-10 rising to 3.8 per cent in 2012-13.

**Chart 1.1: General government sector net result from transactions**



Source: Department of Treasury and Finance

Compared with the *2009-10 Budget* estimates, the operating surplus is expected to be \$97 million higher in 2009-10 and an average of \$802 million higher in the period from 2010-11 to 2012-13. The higher operating surplus has largely been driven by additional revenue, including:

- additional Commonwealth grants for new policy initiatives, weighted towards the end of the forward estimates period, in particular the 2012-13 financial year. These include the Regional Rail Link, vocational education and training sector projects and the Parkville Comprehensive Cancer Centre. As expenditure of this funding is capital in nature, it is not reflected in the operating statement;
- upwards revisions of GST grants of \$261 million a year on average from 2009-10 to 2012-13; and
- increased taxation revenue estimates of \$144 million a year on average from 2009-10 to 2012-13 largely resulting from a better than expected economic outlook.

Further detail on major revisions to the forward estimates and risks to the budget position are outlined in Chapter 3, *Budget Position and Outlook*. Details of specific policy decisions since the *2009-10 Budget* are provided in Appendix A, *Specific Policy Initiatives Affecting Budget Position*.

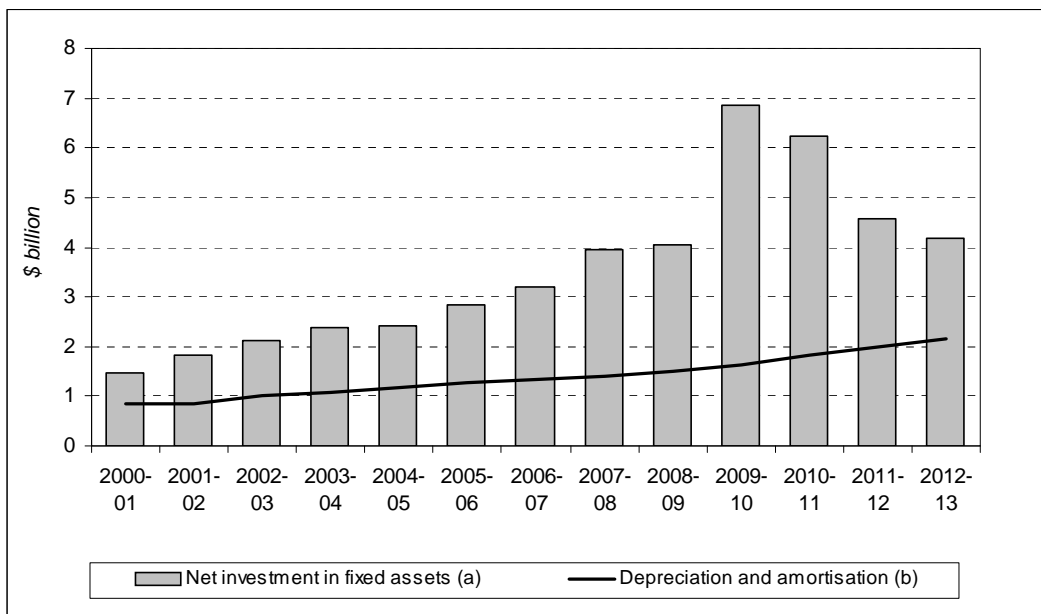
## INFRASTRUCTURE

The Government continues to invest in strategic infrastructure projects to support confidence and economic growth, generate jobs in the short term, and build Victoria's future productivity and competitiveness in the long term.

Net infrastructure investment by the general government sector is projected to be \$6.9 billion in 2009-10 with an average of \$5.0 billion a year from 2010-11 to 2012-13.

Chart 1.2 shows the growth in net infrastructure investment by the general government sector since the beginning of the decade, together with projected net infrastructure investment to 2012-13.

**Chart 1.2: General government sector net infrastructure investment<sup>(a)</sup>**



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.

The substantial investment in 2009-10 and 2010-11 reflects a temporary boost from projects being co-funded by the Commonwealth Government's fiscal stimulus packages, as well as the exceptionally high levels of Victorian Government infrastructure investment.

Over the period 2009-10 to 2012-13, infrastructure investment is expected to exceed estimated depreciation by an average of \$3.6 billion a year. The Government's infrastructure program is funded from cash generated from operating activities and prudent levels of additional borrowings.

The Government's significant infrastructure investments will enhance Victoria's long-term competitiveness, providing long-lasting benefits for Victoria. Major capital projects currently being undertaken include the early stages of the *Victorian Transport Plan*, the continuation of the *Victorian Schools Plan*, major water supply augmentation projects, major hospital redevelopments and projects being delivered in partnership with the Commonwealth Government through the *Nation Building – Economic Stimulus Plan*, including *Building the Education Revolution* and *Social Housing*.

Significant infrastructure projects announced since the *2009-10 Budget* include:

- the construction, in partnership with the Commonwealth, of the Regional Rail Link, a dual track link of up to 50 kilometres from West Werribee to Melbourne's Southern Cross Station (TEI \$4.3 billion); and
- the development, in conjunction with the Commonwealth and leading clinical and research organisations, of the Parkville Comprehensive Cancer Centre (TEI \$1.1 billion).

Details of recently announced asset initiatives are provided in Appendix A, *Specific Policy Initiatives Affecting Budget Position*.

## **SERVICE DELIVERY**

The Government continues to deliver key services in health, education and community safety, and respond to high-priority immediate community needs including bushfire response and preparedness, child protection services, public safety and drought.

Since the *2009-10 Budget*, the Government has announced:

- \$211 million over four years for bushfire reconstruction and recovery following the 2009 Victorian bushfires and preparedness activities in advance of the 2009-10 fire season. Funding will support people and communities, stimulate economic recovery, support the reconstruction task, help rehabilitate the environment, and address recommendations from the *Victorian Bushfires Royal Commission Interim Report*;
- \$77 million over four years to deliver a boost to child protection and family services, including additional frontline child protection workers, a specialist intervention team and support for children placed with their extended family;
- \$50 million over four years to provide 120 police officers and the continuation of the *Safe Streets* initiative targeting trouble spots across Victoria as part of the Government's commitment to safer communities; and

- \$38 million in 2009-10 for drought response including co-investment grants for fixed on farm infrastructure upgrades or capital improvements, water rate rebates and municipal rate subsidies to eligible farmers.

Details of recently announced initiatives are provided in Appendix A, *Specific Policy Initiatives Affecting Budget Position*.

## **TAXATION**

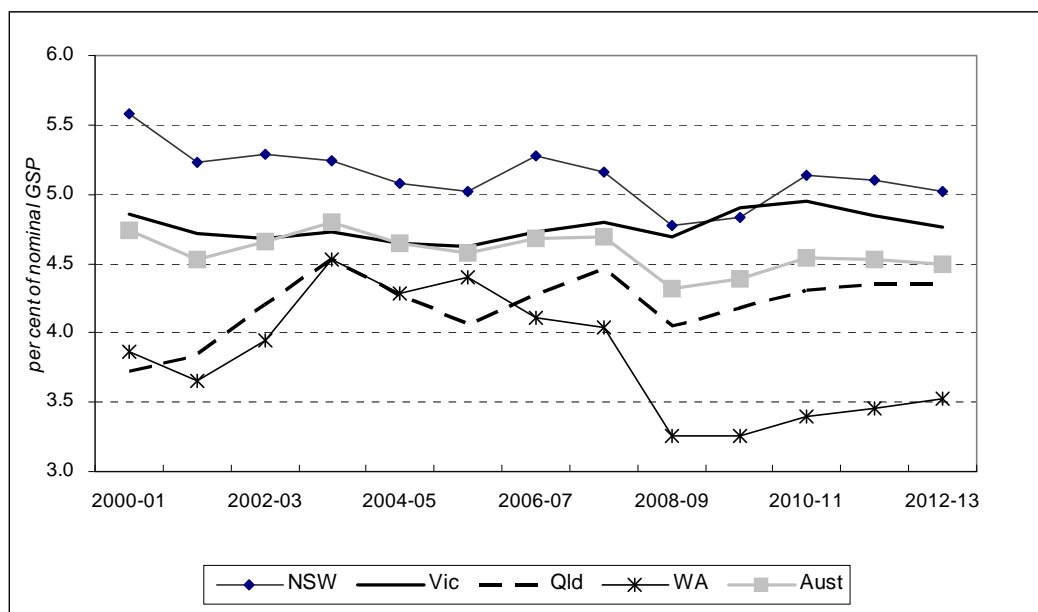
The Victorian Government remains committed to providing a fair and efficient tax system that is competitive with other states.

The Government has implemented substantial tax reform over the past 10 years. These reforms aim to improve economic outcomes by increasing the efficiency and equity of the Victorian tax system including over \$5 billion of announced tax cuts. Further information on the Government's tax reform program is provided in Chapter 4, *Economic Reform Agenda*.

Chart 1.3 provides a comparison of Victoria's taxation competitiveness with New South Wales, Queensland, Western Australia and the Australian average, based on forecasts published at a similar time to the *2009-10 Budget* (or equivalent publication) of these jurisdictions. Over most of the period 2000-01 to 2012-13, Victoria has a lower tax to GSP ratio than New South Wales and is expected to narrow the gap with Queensland and move closer to the Australian average over the forward estimates period.

Taxation revenue fell in all jurisdictions in 2008-09, except the Northern Territory. This is largely related to deteriorating economic conditions. The large decline in Western Australia's tax to GSP ratio in 2008-09 was due to a fall of over 10 per cent in that state's taxation revenue in 2008-09 (mostly relating to land transfer duty) and a significant increase in estimated nominal GSP of around the same magnitude. Victoria's decrease in taxation revenue was a moderate 1.8 per cent as the State's taxation revenue has been relatively resilient to the deterioration in the global economic environment.

**Chart 1.3: Taxation revenue as a percentage of GSP<sup>(a)</sup>**



Sources: Australian Bureau of Statistics, Department of Treasury and Finance and various state publications

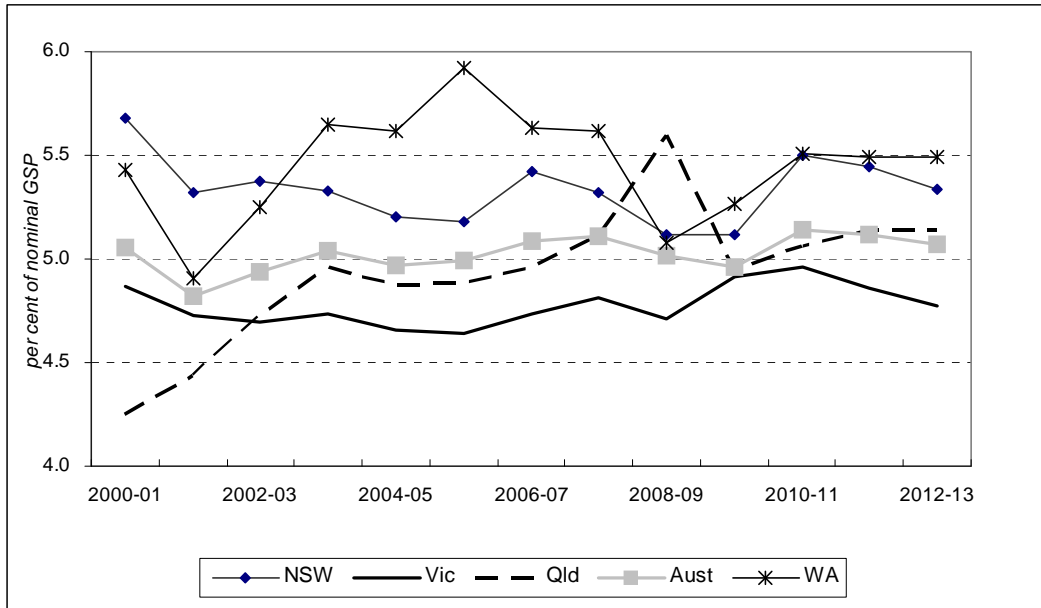
Note:

(a) Historical taxation data to 2008-09. Thereafter, taxation data are 2009-10 Budget (or equivalent publication) estimates, being the latest forward estimates available on a consistent basis across all jurisdictions.

Making interstate comparisons of tax competitiveness is difficult and Chart 1.3 does not include the impact of various other considerations. For example, unlike other states, Victoria has only minimal access to mining royalty revenue. In 2008-09, Queensland and Western Australia each collected over \$3 billion in royalties and New South Wales collected almost \$1.3 billion. Victoria collected only \$48 million. Revenue of this type can enable other states to reduce their reliance on taxation revenue. Chart 1.4 shows that Victoria's ratio of taxes plus royalties to GSP has been below that of the Australian average for nearly a decade since 2000-01.



**Chart 1.4: Taxation and royalty revenue as a percentage of GSP<sup>(a)</sup>**



Sources: Australian Bureau of Statistics, Commonwealth Grants Commission, Department of Treasury and Finance and various state publications

Note:

(a) Historical taxation and royalty data to 2008-09. Thereafter, taxation and royalty data are 2009-10 Budget (or equivalent publication) estimates, being the latest forward estimates available on a consistent basis across all jurisdictions.

## NET FINANCIAL LIABILITIES

Victoria has maintained its triple-A credit rating by consistently achieving a strong fiscal position and keeping net financial liabilities, especially net debt, at prudent levels. Victoria's triple-A credit rating was reaffirmed by Moody's Investors Service in January 2009 and Standard & Poor's in September 2009.

General government net debt is currently projected to increase from \$5 292 million (or 1.9 per cent of GSP) at 30 June 2009 to \$15 966 million by 30 June 2013. Net debt in 2012-13, in dollar terms and as a percentage of GSP (4.9 per cent), is now lower than forecast in the *2009-10 Budget*, reflecting prudent financial management and improved economic growth.

Changes in net debt over the forward estimates period reflect 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. Net debt and net financial liabilities for the broader non-financial public sector are discussed in Chapter 3, *Budget Position and Outlook*.

General government net financial liabilities are now estimated to increase from 11.8 per cent of GSP at 30 June 2009 to 13.5 per cent of GSP by 30 June 2013. The decrease from 15.5 per cent of GSP (at 30 June 2013) presented in the *2009-10 Budget* largely reflects an upward revision to GSP as well as a reduction in the superannuation liability.

The decrease in the superannuation liability by around \$4 billion in each year is primarily due to an increase in the long-term Commonwealth Government bond rate that underpins the discount rate required to value the superannuation liability for reporting purposes. The improvement in financial market performance has also contributed to the reduced liability by increasing the value of superannuation assets held. It is 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.

Further discussion of net debt and net financial liabilities is provided in Chapter 3, *Budget Position and Outlook*.

## CHAPTER 2: ECONOMIC CONDITIONS AND OUTLOOK

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- Since the May budget, the global economic outlook has stabilised and downside risks to growth have eased. Asset prices are rising and business and consumer confidence have recovered. However, there is still considerable vulnerability and uncertainty in the global outlook.
- The Australian and Victorian economies have not been immune to the global recession but have been more resilient than many other advanced economies. This is in part due to a healthier banking system, strong population growth, access to faster growing export markets in Asia, and greater monetary and fiscal policy flexibility.
- Projections for Victorian growth have been revised upwards. Gross state product (GSP) is forecast to grow by 1.5 per cent in 2009-10 and by 2.5 per cent in 2010-11. The domestic economy has been supported by a mix of policy stimulus and sound fundamentals. As the stimulus ends, private demand will need to gain momentum to sustain the recovery.
- Employment has been resilient as employers have shed hours rather than jobs. The unemployment rate forecast has been revised downwards. However, as the labour market is a lagging economic indicator, further increases in unemployment are expected in the near term.
- Inflation is expected to be moderate over the forecast period, reflecting weaker domestic demand and reduced wage growth expectations associated with a weaker labour market. A higher Australian dollar will also exert downward pressure on import prices.
- The risks around the economic forecasts are balanced but large. While rising confidence and wealth, in combination with stimulatory policy settings, could lead to stronger than expected growth, there is also a risk that persistent weakness in the global economy, and the rapid rise of the Australian dollar could dampen activity more than anticipated.

## INTERNATIONAL ECONOMIC CONDITIONS AND OUTLOOK

Since the *2009-10 Budget* was released in May, global economic conditions have stabilised. Advanced economies are slowly recovering from the global recession, in part driven by coinciding stimulus measures. Confidence is also improving in the global banking system, credit spreads are narrowing and international trade has recorded modest gains. In response, world economic forecasts have been revised upwards. The International Monetary Fund's (IMF) October *World Economic Outlook* has forecast growth in the world economy of 3.1 per cent in 2010, up from the 1.9 per cent forecast in April. Nonetheless, falls in output and low capacity utilisation have resulted in a sustained increase in unemployment, and it is likely that any future growth will be sluggish and uneven.

The US economy is slowly emerging from recession, although the recovery is hesitant. Recent growth has been driven by temporary stimulus measures, and consumer confidence remains fragile. Employment continues to decline and the unemployment rate has risen to above 10 per cent. Accordingly, the IMF forecasts US gross domestic product (GDP) to increase by a moderate 1.5 per cent in 2010. In Japan, an improvement in the prospects of its trading partners, as well as government stimulus measures, have seen the economy grow. The IMF is forecasting 1.7 per cent growth in 2010, up from the 0.5 per cent forecast in April 2009. In the Euro area economic growth was particularly affected by declining world trade and more modest stimulus packages. While economic growth is no longer negative, it remains weak and the IMF has forecast only a 0.3 per cent increase in 2010.

In other Asian economies conditions have recovered more strongly, suggesting a 'V' shaped recovery. China recorded a marked rebound in economic conditions in the June quarter, largely due to stimulus measures stemming from a major fiscal package as well as easing monetary policy settings. There is some concern over the quality of recent policy measures and the impact of winding back these stimulus measures on the Chinese economy. There has also been a strong recovery in other trade-exposed Asian economies like Korea and Singapore.

Global equity markets are on a recovery trajectory, reflecting improved economic sentiment. Commodity markets have also strengthened, in part driven by demand from China, and oil prices have risen to around US\$80 per barrel, up around 60 per cent since April. Rising commodity prices and interest rate expectations in Australia have affected the Australian dollar, which reached its highest level in more than a year in November. On a trade-weighted basis the Australian dollar was almost 30 per cent higher over the year.

## **AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK**

The Australian economy has been more resilient than many other advanced economies in weathering the impact of the global recession. A healthier banking system, as well as greater policy flexibility – particularly scope to use monetary policy and fiscal stimulus – helped support the domestic economy. The economy also received a strong boost from the recovery in Asia, with Australian export volumes holding up while other countries saw their exports collapse.

The Commonwealth Treasury's *Mid-Year Economic and Fiscal Outlook* forecast Australian GDP to rise by 1.5 per cent in 2009-10 and 2.75 per cent in 2010-11, representing an upwards revision of 2.0 and 0.5 percentage points respectively. The Consensus Economics forecast for Australian GDP growth is 0.9 per cent in 2009 and 2.7 per cent in 2010.

Headline inflation has eased sharply and while underlying inflation remains elevated, it is moderating. Reductions in inflationary expectations in response to weaker wage growth and a strong Australian dollar are likely to keep inflation subdued in the near term. Some upside risks remain in the form of persistent inflation in the housing rental market and an expected increase in the cost of utilities, as well as potential inflationary impacts from highly stimulatory policy settings.

Reflecting the improving economic outlook, the Reserve Bank of Australia (RBA) has started to raise interest rates from their emergency lows towards a more neutral setting. The official cash rate was raised by 25 basis points in both October and November, and is currently at 3.5 per cent. Financial markets expect further rises in the coming months.

## **VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK**

The economic projections used in the *2009-10 Budget Update* are set out in Table 2.1. Where different, the projections made in the *2009-10 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<sup>(a)</sup>**

	2008-09	2009-10	2010-11	2011-12	2012-13
	<i>Actual</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Real gross state product	1.25* (0.50)	1.50 (0.25)	2.50 (2.25)	3.00	3.00
Employment	0.2	0.25 (-1.00)	1.25 (0.50)	1.75 (1.50)	1.75 (1.50)
Unemployment rate <sup>(b)</sup>	5.1	6.50 (7.00)	6.75 (7.75)	6.75 (7.75)	6.75 (7.75)
Consumer price index	2.8	2.00	2.25	2.50	2.50
Wage price index <sup>(c)</sup>	4.0	3.00 (3.75)	3.25	3.50	3.50
Population <sup>(d)</sup>	2.00* (1.80)	1.90 (1.60)	1.80 (1.50)	1.70 (1.40)	1.60 (1.40)

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

Notes:

\* *Estimated*

- (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) is estimated to have grown by 1.25 per cent in 2008-09, 0.75 percentage points higher than expected in the 2009-10 *Budget* forecast. The upwards revision is indicative of the unanticipated resilience of private demand and the impact of declining imports. However, there is a high degree of uncertainty attached to this estimate.

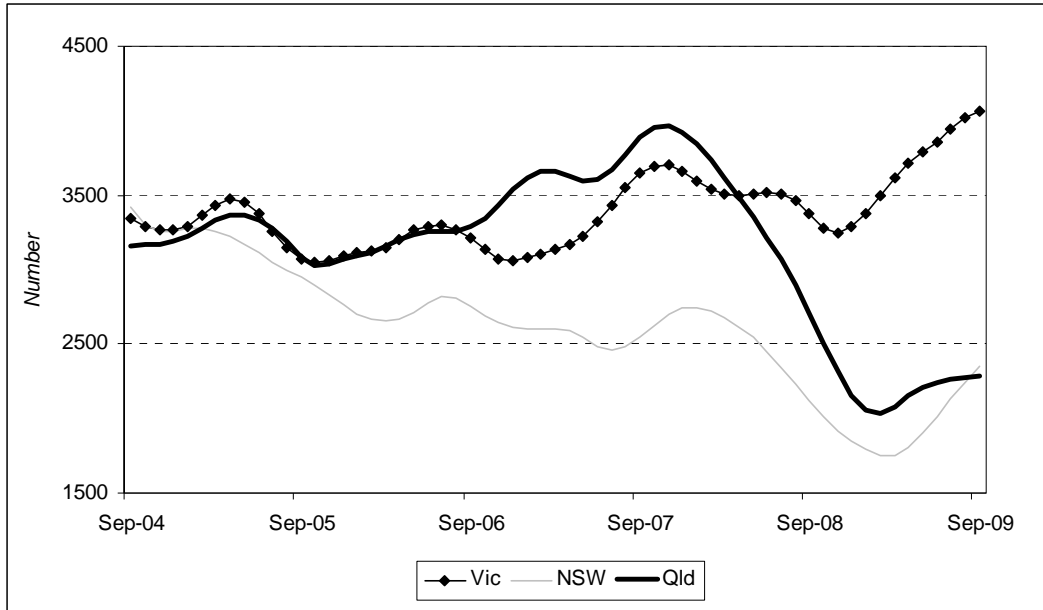
Growth is expected to improve in line with a broader recovery in Australia in 2009-10 and 2010-11, with GSP forecast to increase by 1.5 per cent and 2.5 per cent respectively. Growth is forecast to be below trend in the near term, reflecting the weakness of the global economy, as well as the need to repair balance sheets.

Consumption growth was positive in the first half of 2009. Boosts to disposable incomes from government stimulus payments and low interest rates have supported spending and confidence. While the impact from these stimulus measures is fading and interest rates are starting to rise, strong population growth should continue to underpin growth in consumption, albeit at a moderate rate.

Victorian dwelling investment has performed well despite the global recession. Historically low interest rates and the *First Home Owner Boost* have helped sustain demand for new dwellings. Housing turnover has reverted to levels not seen since the late 2007 boom. The near term outlook is positive, with both dwelling approvals and housing finance figures growing strongly. In particular, Victorian dwelling construction

has outpaced the rest of the nation (see Chart 2.1). However, some risks remain, including the potential negative impact of the progressive withdrawal of the *First Home Owner Boost* and rising interest rates.

**Chart 2.1: Number of dwelling units approved, trend**



Source: Australian Bureau of Statistics

Business investment is forecast to fall slightly in 2009-10. Stimulatory policy actions appear to have prevented the substantial falls expected at the time of the *2009-10 Budget* in May, and business survey confidence and conditions measures are now broadly back at levels seen prior to the onset of the economic downturn. Nonetheless, weaker investment intentions due to low capacity utilisation are likely to ensure that investment levels remain subdued in the near term. Reduced credit availability also remains pervasive.

Victoria's goods exports are likely to remain weak in 2009-10. Weakness in some of Victoria's key trading partners and lower production in some areas of agriculture are expected to hamper growth in the near term. Service exports, including education services, are expected to hold up better. Imports are forecast to resume growth, reflecting the high Australian dollar and the relative strength of the domestic economy.

Victorian agricultural production is expected to improve in 2009-10, underpinned by a strong rebound in winter crop production. The dairy sector is more subdued, while meat production is stable. The recovery in agricultural production could contribute around 0.25 to 0.5 percentage points to GSP growth in 2009-10.

The labour market has been resilient since the *2009-10 Budget* was released in May. Total employment has increased since June and the participation rate has continued to hold up despite weaker labour demand. The key driver behind this resilience appears to be labour market flexibility, with employers reducing hours instead of shedding workers. Employment conditions are not as poor as expected in May. Furthermore, forward indicators suggest conditions are stabilising and the pace of labour shedding has eased. Nonetheless, employment growth is expected to be below trend in the near term, which should see the unemployment rate rise to around 6.75 per cent.

Labour market flexibility appears to have led to wage moderation, which has also been important for limiting the number of job losses. As such, the near term wage growth forecast has been revised down. More generally, measures of inflationary expectations are low and the strong Australian dollar is likely to keep import prices down, moderating inflationary pressures.

## **RISKS TO THE OUTLOOK**

The economic outlook, while more positive than in May, remains highly uncertain. Global economic conditions are weak and advanced economies are vulnerable to further shocks. Governments in the advanced economies are not yet ready to withdraw stimulus. Other key downside risks include inflationary pressures from stimulatory policy settings and negative trade impacts from a strong Australian dollar.

While significant downside risks to global growth have eased, considerable uncertainty remains regarding the extent of a recovery. A key factor stems from how private demand will respond once fiscal stimulus measures are removed and interest rates begin to rise. There is also the risk that some advanced economies now face a protracted period of lower potential growth.

Inflationary risks are also possible from the current highly stimulatory policy settings. The trough in underlying inflation in this cycle is unlikely to be as low as previously expected. Signs of growing price pressures may force the RBA to increase interest rates faster than would otherwise be necessary.

The sharply rising Australian dollar, while tempering inflation, is also acting as a contractionary influence on the economy through its impact on net exports. Further appreciation in response to the interest rate and growth differentials, and/or speculative activity, will negatively impact on Victoria's exports and import-competing industries.

The key upside risks stem from rebounding commodity and asset prices and associated wealth and confidence effects on the domestic economy. Stronger outcomes could also be expected if a global recovery gains traction, especially if confidence and governance is rebuilt in the North Atlantic economies more quickly.



## CHAPTER 3: BUDGET POSITION AND OUTLOOK

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### General government sector

- The revised 2009-10 operating surplus (net result from transactions) for the general government sector is \$262 million, compared with the *2009-10 Budget* estimate of \$165 million.
- The operating surplus over the forward estimates period is expected to be higher than the *2009-10 Budget* estimate by an average of \$802 million per year. This mainly reflects the boost from additional Commonwealth Government infrastructure grants for the Regional Rail Link and Parkville Comprehensive Cancer projects that will be delivered in partnership with the Victorian Government.
- The Victorian Government is continuing to invest for the future and secure jobs. The largest infrastructure program in Victoria's history will be delivered in partnership with the Commonwealth Government through the *Nation Building – Economic Stimulus Plan*, and is projected to be \$6.9 billion in 2009-10 and an average of \$5.0 billion per year over the forward estimates period.
- The Government is committed to delivering key services with additional funding in areas such as health, education and community safety. Specific initiatives include bushfire recovery, 120 additional police officers, boosting child protection and family services, and responding to drought.
- Net debt is projected to be 4.9 per cent of gross state product (GSP) by 30 June 2013, reflecting a fall from the peak of 5.1 per cent in 2011-12. Net debt forecasts as a percentage of the economy and in dollar terms are now lower than projected in the *2009-10 Budget*.

### Non-financial public sector

- Net infrastructure investment is projected to average \$7.6 billion a year over the budget and forward estimates period. This primarily reflects the general government sector's infrastructure program as well as substantial infrastructure investment in the water sector, such as the Northern Victoria Irrigation Renewal Project and improvements in the Goulburn Murray Irrigation District.

- Net debt and net financial liabilities are projected to increase from 3.9 per cent of GSP and 14.2 per cent of GSP respectively at 30 June 2009 to 9.5 per cent of GSP and 18.1 per cent of GSP respectively by 30 June 2013. This is lower than projected in the *2009-10 Budget* reflecting prudent financial management, improved economic growth and a reduction in the State's superannuation liability.
- The Victorian Government will continue to meet its objective of maintaining net financial liabilities at prudent levels. Victoria's triple-A credit rating was re-affirmed by Moody's Investors Service in January 2009 and Standard & Poor's in September 2009.

This chapter provides an overview of the revised budget position for the period 2009-10 to 2012-13 for the general government sector and a reconciliation and explanation of key movements affecting the net result from transactions since the publication of the *2009-10 Budget*.

This chapter also presents the revised budget position for the non-financial public sector. The non-financial public sector combines government owned enterprises such as water, rail and port authorities with the general government sector.

## **GENERAL GOVERNMENT SECTOR**

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 and other information affecting the projected general government sector financial statements as at 30 October 2009, unless stated otherwise. Specific Victorian Government policy decisions that have been taken since the *2009-10 Budget* was released in May and which affect the budget position are provided in Appendix A, *Specific Policy Initiatives Affecting Budget Position*.

The actual outcomes may differ from these projections for many reasons, including policy changes, 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 revised 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.

The Victorian Government considers the net result from transactions (net operating balance) to be the most appropriate measure of financial management. This is because it excludes the effects of other economic flows arising from changes in market prices and other changes in the value of assets which are outside the control of the Government.

## Forward estimates outlook 2009-10 to 2012-13

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*.

The net result from transactions is now expected to be \$262 million in 2009-10, \$925 million in 2010-11, \$739 million in 2011-12 and \$1 790 million in 2012-13; an \$802 million increase on average over the forward estimates period compared to the *2009-10 Budget*. This surplus profile primarily reflects significant new Commonwealth funding for infrastructure investment which is explained in further detail under the heading, 'Variations to revenue'.

**Table 3.1: Summary operating statement for the period 2009-10 to 2012-13 for the general government sector<sup>(a)</sup>**

	(\$ million)			
	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Revenue</b>				
Taxation	13 495.3	14 162.7	14 611.7	15 444.6
Dividends, TER and interest <sup>(b)</sup>	746.6	929.8	1 254.0	1 553.1
Sales of goods and services	4 966.4	5 355.8	5 609.2	5 789.0
Grants	22 181.1	21 439.5	21 497.7	22 700.2
Other current revenue	1 742.0	1 639.6	1 612.8	1 581.7
<b>Total revenue</b>	<b>43 131.4</b>	<b>43 527.5</b>	<b>44 585.5</b>	<b>47 068.5</b>
% change		0.9%	2.4%	5.6%
<b>Expenses</b>				
Employee expenses	15 194.7	15 889.1	16 641.0	17 461.8
Superannuation <sup>(c)</sup>	2 379.1	2 352.5	2 410.0	2 519.7
Depreciation	1 642.3	1 834.2	1 998.4	2 159.5
Interest expense	779.7	960.2	1 352.1	1 663.7
Other expenses	14 064.7	14 109.7	14 400.3	14 414.0
Grants and other transfers	8 809.0	7 456.3	7 044.9	7 059.6
<b>Total expenses</b>	<b>42 869.5</b>	<b>42 602.1</b>	<b>43 846.6</b>	<b>45 278.3</b>
% change		-0.6%	2.9%	3.3%
<b>Net result from transactions</b>	<b>261.9</b>	<b>925.4</b>	<b>738.8</b>	<b>1 790.2</b>
<b>Total other economic flows included in net result</b>	<b>243.1</b>	<b>28.3</b>	<b>34.7</b>	<b>30.3</b>
<b>Net result</b>	<b>505.0</b>	<b>953.7</b>	<b>773.5</b>	<b>1 820.5</b>

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.
- (c) Comprises superannuation interest expense and other superannuation expenses.

## Alternative measures of operating performance

In addition to the net result from transactions, the Government uses other financial results to measure its performance. Table 3.2 below presents these alternative measures.

**Table 3.2: Summary of alternative measures of financial performance**

	(\$ million)			
	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
Net operating balance/Net result from transactions	261.9	925.4	738.8	1 790.2
Net result <sup>(a)</sup>	505.0	953.7	773.5	1 820.5
Net lending/(borrowing) <sup>(b)</sup>	(3 132.0)	(1 928.3)	(1 353.7)	899.0
Cash surplus/(deficit) <sup>(c)</sup>	(2 562.2)	(1 528.5)	( 324.0)	1 017.7

Source: Department of Treasury and Finance

Notes:

- (a) The net result adds the net result from transaction to 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 value of assets which are outside the control of the Government.
- (b) The financing requirement of Government, calculated as the net operating balance less the net acquisition of non-financial assets. A positive result reflects a net lending position and a negative result reflects a net borrowing position.
- (c) Cash surplus/(deficit) equals the net cash flows from operating activities less investments in non-financial assets.

These measures show that Victoria's financial performance remains strong despite the impact of the global recession.

In particular, the net operating balance, (equivalent to the net result from transactions), which is now the basis for comparing budget estimates on an accrual basis with all other Australian states and the Commonwealth, remains in surplus.

The Government's cash surplus/(deficit) estimates follow the same general profile over the forward estimate years as at the 2009-10 Budget; however improved economic performance and additional capital grants have reduced the size of the deficits and increased the 2012-13 cash surplus. Higher operating surpluses have also reduced the net borrowing requirement for each year. The State is forecast to have a cash surplus by 2012-13 and to be in a position by 2012-13 where net debt is reducing as a proportion of the State's economy.

## **Revenue outlook**

Total revenue in 2009-10 is projected to be \$43.1 billion. Growth in total revenue over the forward estimates period is projected to average \$1.3 billion, or 3.0 per cent, a year.

Taxation revenue is projected to be \$13.5 billion in 2009-10 and is expected to grow by an average of \$650 million, or 4.6 per cent a year over the forward estimates period. Projected growth in taxation over the outlook period reflects the expected recovery in the property market and the economy more generally; this trend remains broadly consistent with figures published in the *2009-10 Budget*.

GST revenue is expected to increase by 6.3 per cent over the forward estimates period, which anticipates a higher rate of growth for taxable consumption consistent with improvements in the economy.

The revised revenue outlook to 2012-13 shows the early signs of economic recovery and the higher surpluses are restoring flexibility in the State's budget that had been adversely impacted by the global recession.

## **Expenses outlook**

Total expenses are projected to be \$42.9 billion in 2009-10. This is forecast to decline to \$42.6 billion in 2010-11, primarily as a result of a reduction in grants expenditure associated with the wind down of the Commonwealth fiscal stimulus, such as grants to non-government schools and social housing organisations. Expenditure growth in the following two years is projected to average \$1.3 billion, or 3.1 per cent a year.

Expenditure growth is related to meeting increased demand for services, new output policy decisions in response to high priority community needs and expenditure of own-source revenue. This is reflected in:

- growth in employee expenses (including superannuation) of \$803 million, or 4.4 per cent a year on average over the forward estimates period, which includes a provision for the employment of additional service delivery staff; and
- growth in depreciation and interest expenses of \$467 million, or 16.5 per cent, a year on average over the forward estimates period reflecting the operating statement impact of Victoria's historically high infrastructure program.

### ***Other economic flows***

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

Other economic flows of \$243 million (gain) are expected in 2009-10. This is mainly due to an actuarial gain on superannuation, which is based upon experience to 30 September 2009. While the discount rate that is used to value the superannuation liability had decreased from 5.7 per cent a year to 5.5 per cent a year between 30 June 2009 and 30 September 2009, the \$723 million actuarial loss that this produced, was more than offset by the actuarial gain that arose due to better than expected investment performance on superannuation assets of \$1 billion during the first quarter of the reporting period. The change in expense due to the discount rate is an accounting adjustment and does not affect the cash actually paid to meet the State's superannuation liabilities.

## Reconciliation of forward estimates to previously published estimates

Table 3.3: Reconciliation of estimates to the 2009-10 Budget

	(\$ million)			
	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Net result from transactions: 2009-10 Budget <sup>(a)</sup></b>	<b>165.1</b>	<b>195.3</b>	<b>290.3</b>	<b>562.1</b>
<b>Plus: Variations in income from transactions since 2009-10 Budget</b>				
<b>Policy decision variations</b>	<b>74.2</b>	<b>97.6</b>	<b>117.9</b>	<b>129.5</b>
<b>Economic/demographic variations</b>				
Taxation	197.3	71.4	49.3	259.5
Investment income <sup>(b)</sup>	14.0	( 55.5)	( 100.0)	( 70.8)
<b>Total economic/demographic variations</b>	<b>211.3</b>	<b>16.0</b>	<b>( 50.7)</b>	<b>188.6</b>
<b>Commonwealth grant variations</b>				
General purpose grants	229.3	332.9	277.4	206.3
Specific purpose payment grants	465.7	454.3	740.0	1 343.4
<b>Total Commonwealth grant variations</b>	<b>695.0</b>	<b>787.2</b>	<b>1 017.4</b>	<b>1 549.7</b>
<b>Increase in own-source revenue</b>	<b>( 0.8)</b>	<b>( 89.6)</b>	<b>( 84.2)</b>	<b>( 83.7)</b>
<b>Administrative variations</b>	<b>( 236.6)</b>	<b>114.3</b>	<b>315.8</b>	<b>894.3</b>
<b>Total variation in income from transactions since 2009-10 Budget</b>	<b>743.1</b>	<b>925.4</b>	<b>1 316.1</b>	<b>2 678.5</b>
<b>Less: Variations in expenses from transactions since 2009-10 Budget</b>				
<b>Policy decision variations <sup>(c)</sup></b>	<b>80.1</b>	<b>161.7</b>	<b>178.3</b>	<b>170.1</b>
<b>Commonwealth variations</b>	<b>140.5</b>	<b>( 31.7)</b>	<b>32.8</b>	<b>86.4</b>
<b>Variations due to changes in own-source revenue</b>	<b>219.4</b>	<b>58.5</b>	<b>62.2</b>	<b>57.9</b>
<b>Administrative variations</b>				
Superannuation variations	94.7	5.0	10.6	16.5
Other administrative variations	111.6	1.7	583.7	1 119.5
<b>Total administrative variations</b>	<b>206.3</b>	<b>6.7</b>	<b>594.3</b>	<b>1 136.0</b>
<b>Total variation in expenses from transactions since 2009-10 Budget</b>	<b>646.3</b>	<b>195.2</b>	<b>867.6</b>	<b>1 450.4</b>
<b>Revised net result from transactions</b>	<b>261.9</b>	<b>925.4</b>	<b>738.8</b>	<b>1 790.2</b>

Source: Department of Treasury and Finance

### Notes:

- (a) 2009-10 Budget net result from transactions as published in the May 2009 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 *2009-10 Budget*, total revenue is expected to be \$743 million higher in 2009-10, \$925 million higher in 2010-11, \$1.3 billion higher in 2011-12, and \$2.7 billion higher in 2012-13.

As explained in Chapter 2, *Economic Conditions and Outlook*, the resilience of the Australian and Victorian economies to the global recession has led to upward revisions of gross state product and employment growth as compared to the *2009-10 Budget*. This has resulted in a corresponding increase to taxation estimates and general purpose Commonwealth grants. Commonwealth grants for infrastructure projects have also been revised upward significantly.

### **Revenue policy decision variations**

Revenue policy decisions have increased revenue across the forward estimates. Sources of increased revenue include:

- the introduction of a risk-based liquor licensing fee structure to recognise the cost of regulating licensed venues. The additional revenue will fund liquor licence inspection, policing and enforcement activities;
- an increase to the Metropolitan Improvement Levy to fund a range of improvements to parks, waterways and bays in the Melbourne metropolitan area; and
- statutory insurance industry contributions to the Country Fire Authority for initiatives to prepare for the 2009-10 bushfire season and respond to recommendations made by the Victorian Bushfires Royal Commission's Interim Report (August 2009).

Further detail on revenue initiatives is provided in Appendix A, *Specific Policy Initiatives Affecting Budget Position*.

### **Economic/demographic variations**

A better than expected economic outlook has resulted in taxation estimates being generally revised upwards, although this is moderated by downward trends in some property related taxes. The increase in estimated taxation revenue is \$197 million in 2009-10 and an average of \$127 million a year over the forward estimates period, including:

- slightly lower than expected payroll tax in 2009-10 (down by \$9 million), but an upward revision of \$130 million a year on average over the forward estimates period. The latter reflects the improved employment outlook and an expected reversal in the decline in the average hours worked per employee that occurred over 2008-09; and

- increases in expected total motor vehicle, insurance and gambling tax revenue of \$129 million in 2009-10 and \$91 million a year on average for the forward estimates period, principally reflecting a recovery to a higher expected level of economic activity.

These increases have been partly offset by downward revisions to:

- income from taxes on financial and capital transactions, largely comprising duty on land transfers. Estimates have been revised upwards in 2009-10 by \$69 million; however the movement over the forward estimates is an average reduction of \$93 million a year. Movements reflect expected easing of demand pressure in the property market following the phasing out of the Commonwealth Government's *First Home Owner Boost*, and anticipated increases in interest rates (in line with financial market expectations). Notwithstanding the downward variations relative to budget estimates, land transfer duty is still expected to grow strongly, at an average annual rate of 5.6 per cent between 2009-10 and 2012-13; and
- land tax revenue, where weakness in the industrial property sector is likely to result in lower than expected site values at the scheduled 1 January 2010 revaluation; this will result in a small downward adjustment of \$20 million a year on average over the forward estimates period.

Investment income (comprising dividend, income tax and rate equivalent income and interest), has been revised downward by an average of \$53 million a year from 2009-10 to 2012-13. The movement from budget primarily reflects the downward revision of dividends from the Transport Accident Commission as a result of financial conditions and higher forecast claims costs, as well as the outcomes of the Essential Services Commission price determination and reduced sales volume attributable to the effect of ongoing drought conditions on the water sector.

### *Commonwealth grant variations*

Total Commonwealth Government grants have been revised upwards compared to the *2009-10 Budget* by \$695 million in 2009-10, and by an average of \$1.1 billion a year from 2010-11 to 2012-13. This is mainly due to:

- additional grants provided to partner Victoria in delivering the largest infrastructure program in the State's history. Significant Commonwealth Government funding has been provided for:
  - the Regional Rail Link: up to 50 kilometres of dual-track link from West Werribee to the Southern Cross Station in central Melbourne via Sunshine, that will segregate V/Line regional rail services from metropolitan rail services, including, new stations at Tarneit and Wyndham Vale; and at least four grade separations, so that no new level crossings are created by the project. The Commonwealth Government will contribute \$3.2 billion out of the \$4.3 billion total estimated investment (TEI);

- the Parkville Comprehensive Cancer Centre: a \$1.1 billion world class facility which, by co-locating cancer research and treatment, aims to accelerate the development of new cancer treatments and improve care for cancer patients as part of the Government’s *Cancer Action Plan*. The Commonwealth will contribute \$426 million of the total TEI;
- vocational education and training sector infrastructure projects including: building programs at Chisholm (Cranbourne Campus), Northern Melbourne Institute (Epping Campus) and the TAFE divisions of Swinburne University and the University of Ballarat; and other TAFE infrastructure upgrades such as the construction of wireless local area networks; and
- increased estimates of GST revenue (general purpose grants) of \$229 million in 2009-10, \$333 million in 2010-11, \$278 million in 2011-12 and \$206 million in 2012-13.

### *Own-source revenue*

Own-source revenue has been revised downwards by an average of \$86 million a year from 2010-11 to 2012-13. This mainly relates to a reduction in third party revenue, such as user charges and fund raising receipts, reflecting the effects of the global recession. This is partially offset by increased contributions to the Department of Sustainability and Environment (DSE) from metropolitan water retailers related to a range of water projects.

### *Administrative variations*

Administrative variations to revenue estimates in 2011-12 and 2012-13 primarily relate to Melbourne Water Corporation’s contribution towards the service costs for the desalination plant at Wonthaggi. These are associated with corresponding increases in expenditure below.

### *Variations to expenses*

Compared to the estimates published in the *2009-10 Budget*, total expenses are expected to be \$646 million higher in 2009-10, \$195 million higher in 2010-11, \$868 million higher in 2011-12, and \$1.5 billion higher in 2012-13.

### *Policy decision variations*

New Victorian Government output policy decisions taken since the *2009-10 Budget* account for additional expenses of \$80 million in 2009-10 and \$170 million a year on average over the forward estimates period. This includes initiatives announced in response to high priority community needs such as the Government’s response to the 2009 Victorian bushfires and preparedness for the upcoming fire season, boosting child protection services for Victoria’s most vulnerable children, 120 extra police to target public order trouble spots and the Government’s ongoing response to drought.

Details of specific policy decisions since the *2009-10 Budget* are summarised in Appendix A, *Specific Policy Initiatives Affecting Budget Position*.

### *Commonwealth Variations*

Additional funding provided by the Commonwealth Government has revised expenses upward by \$141 million in 2009-10 and by an average of \$29 million each year over the forward estimates period. For 2009-10, this mainly represents the impact of the Commonwealth's extension of the *First Home Owner Boost*.

### *Variations due to changes in own-source revenue*

Expense revisions associated with own-source revenue mainly relate to contributions to DSE related to a range of water projects as explained in the discussion above of variations to revenue.

### *Administrative variations*

Expenses for administrative reasons have been revised upwards by \$206 million in 2009-10, \$7 million in 2010-11, \$594 million in 2011-12, and \$1 136 million in 2012-13. These revisions include the impacts of:

- an increase in the superannuation expense of \$95 million 2009-10, primarily due to the flow on effect of the increase in the discount rate that is used to value the superannuation liability between 31 March 2009 and 30 June 2009 (the basis of the *2009-10 Budget* estimates). Estimates of the superannuation expenses from 2010-11 to 2012-13 inclusive have also been revised upward due to the increase in the discount rate, but this impact has been largely offset by the flow on effect of better than expected investment returns on superannuation assets between 30 June 2009 and 30 September 2009, such that the increase is only expected to average \$11 million a year over this period;
- service costs for the desalination plant at Wonthaggi associated with the Melbourne Water Corporation's contribution as described previously in administrative variations to revenue;
- consistent with the revised demographic and economic forecasts, provisions have been made across the forward estimates period to provide for expected increases in both the cost and volume of associated services; and
- reclassification of unilaterally decided bad debts expenses from a 'transaction' to 'other economic flows' has resulted in amendments to the net result from transactions estimates published in the *2009-10 Budget*, in accordance with relevant accounting standard requirements.

## **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 Government grants are a major source of revenue for the State, with an estimated grants income of approximately \$22 billion in 2009-10. Commonwealth grants include general purpose grants (GST grants), specific purpose payments (SPP) and National Partnership payments (NP).

The level of NP and SPP funding received by Victoria is determined by the policies of the Commonwealth Government, with new funding agreements agreed by the Council of Australian Governments (COAG). NP funding is also subject to the State achieving certain performance benchmarks.

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. The review is scheduled to be completed by 26 February 2010.

Any changes to economic conditions in the budget and forward estimates period 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 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.

### *Gambling licence revenue*

Following a regulatory review of gambling licences, the Victorian Government is in the process of re-licensing the State's electronic gaming machine (EGM), wagering and keno licences and tendering a new monitoring licence for the EGM sector. The awarding of these licences is subject to competitive allocation processes. Successful bidders may pay a premium to the State for the right to acquire these licences/entitlements. In relation to the EGM sector, the first stage of this process is a pre-auction offer to clubs which is expected to be completed in late November 2009.

The revenue outcome to the State from gambling licence premium payments will be determined by market-driven processes and is subject to considerable uncertainty. In accordance with relevant accounting policies, any licence premium revenue will be recognised in the general government sector operating statement as gambling taxation revenue, spread evenly over the course of the relevant licence period.

The *Budget Update* includes provisional estimates of the expected revenue outcome. Estimates will also be included in the 2010-11 State budget. Because of the risk of pre-empting market outcomes and sending incorrect signals to licence applicants, these provisional estimates will not be separately disclosed and have been aggregated in this *Budget Update* with broader gambling tax revenue estimates.

Upon finalisation of the competitive allocation processes, any gambling licence premium revenue will be disclosed in the State financial statements consistent with accounting policies.

### **Expenditure risks**

Expenditure risks can be broadly classified into those affecting budgets in 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 the Consumer Price Index (CPI). Under the departmental funding model, variations to CPI forecast growth rates applied to output prices for the coming budget and forward estimates years are to be determined in the context of the next annual budget. The State mitigates some of this risk materialising through use of long term contracts and its purchasing power, however changes to CPI may impact budget allocations with a flow on effect to the net result from transactions.

Other expenditure risks 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 2009-10 revised estimate and forward estimates include a contingency provision to allow for the likelihood that some of these expenditure risks may 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 2009-10 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.

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 2009-10 estimates have been based on the closing balance for 2008-09 as published in the 2008-09 *Financial Report for the State of Victoria*. This shows actual results and differs from the estimated closing balance for 2008-09 used in the 2009-10 *Budget*. Therefore, it is more appropriate to provide commentary on revisions to the balance sheet compared to the 2008-09 outcome.

Table 3.4 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 3.4: Summary balance sheet as at 30 June for the general government sector<sup>(a)</sup>**

	(\$ billion)				
	2009 Actual	2010 Revised	2011 Estimate	2012 Estimate	2013 Estimate
<b>Assets</b>					
Non-financial assets	88.4	94.7	99.7	107.0	110.9
Financial assets	8.4	7.8	8.0	12.6	13.0
Investments in other sector entities					
Public non-financial corporations	59.8	62.0	63.8	64.8	65.4
Public financial corporations	0.8	2.0	2.7	3.1	3.6
<b>Total assets</b>	<b>157.5</b>	<b>166.5</b>	<b>174.2</b>	<b>187.6</b>	<b>192.9</b>
<b>Liabilities</b>					
Superannuation	20.7	20.7	21.0	21.4	21.6
Borrowings	10.6	14.8	18.4	25.5	26.0
Other liabilities	9.5	9.6	9.7	9.6	9.7
<b>Total liabilities</b>	<b>40.9</b>	<b>45.1</b>	<b>49.1</b>	<b>56.5</b>	<b>57.4</b>
<b>Net assets</b>	<b>116.6</b>	<b>121.5</b>	<b>125.1</b>	<b>131.1</b>	<b>135.5</b>

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 Victoria with the capacity and the flexibility to absorb financial and economic shocks, such as those that have arisen in the recent past, and those that may potentially materialise due to the uncertainty of the economic outlook.

At 30 June 2009 the general government sector had total assets of \$158 billion offset by liabilities of \$41 billion, leaving a net position of \$117 billion. Net assets are projected to grow strongly to \$136 billion by 30 June 2013, as growth in total assets exceeds growth in total liabilities. The expected increase is attributed to the Government's significant infrastructure program being delivered in partnership with the Commonwealth Government; and revaluation increments to property, plant and equipment expected over the forward estimates period.



## Cashflows

The Government's infrastructure investment program underpins the provision of essential services, supports confidence and economic growth, and generates jobs for the people of Victoria. It does this in areas such as health, transport, education and vocational training. New infrastructure projects approved since the *2009-10 Budget* include the Regional Rail Link and the Parkville Comprehensive Cancer Centre.

Table 3.5 provides a summary of cash generated through the operations of Victorian Government departments and other general government sector agencies, showing how that cash is applied to infrastructure investment, and the associated impact on net debt.

**Table 3.5: Application of cash resources for the general government sector**

	(\$ million)			
	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Net result from transactions</b>	<b>261.9</b>	<b>925.4</b>	<b>738.8</b>	<b>1 790.2</b>
Add back: Non-cash income and expenses (net) <sup>(a)</sup>	2 049.0	2 032.8	2 157.9	2 278.3
<b>Net cash flow from operating activities</b>	<b>2 310.9</b>	<b>2 958.2</b>	<b>2 896.7</b>	<b>4 068.4</b>
Less:				
<b>Net investment in fixed assets</b>				
Expenditure on approved projects	7 119.6	6 164.3	4 283.6	3 746.0
Capital provision approved but not yet allocated <sup>(b)</sup>	..	331.0	555.0	701.0
Proceeds from asset sales	( 262.9)	( 250.4)	( 264.7)	( 253.0)
<b>Total net investment in fixed assets</b>	<b>6 856.7</b>	<b>6 244.9</b>	<b>4 573.9</b>	<b>4 194.0</b>
Finance leases <sup>(c)</sup>	74.7	121.0	5 043.1	..
Other investment activities (net)	( 20.2)	( 7.9)	(4 210.7)	38.5
<b>Decrease/(increase) in net debt</b>	<b>(4 600.3)</b>	<b>(3 399.8)</b>	<b>(2 509.6)</b>	<b>( 164.1)</b>

Source: Department of Treasury and Finance

Notes:

- (a) Includes depreciation and movements in the unfunded superannuation liability and liability for employee benefits.
- (b) Amount available to be allocated to specific departments and projects in future budgets, including contributions to other sectors.
- (c) The finance lease amounts in 2009-10 and 2010-11 relate to the Partnerships Victoria in Schools project and the finance lease in 2011-12 relates to the redevelopment of the Royal Children's Hospital and the desalination plant at Wonthaggi.

The Government's net infrastructure investment program (which includes total purchases of property, plant and equipment less proceeds from sale of assets; and capital contributions to other sectors of government) is projected to average \$5.5 billion a year on average from 2009-10 to 2012-13. Around 60 per cent of the \$22 billion infrastructure program over the four years to 2012-13 will be funded from the cash surpluses from operating activities. The remainder of the infrastructure program will be funded by net 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. 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, adds the net superannuation liability arising from government's defined benefit superannuation schemes to net debt. This was previously referred to as 'net financial liabilities' in Victorian budget documents and continues to be provided for transparency and continuity reasons.

Net financial liabilities, adopted under the revised Uniform Presentation Framework applicable for 2008-09, is defined as total liabilities less all financial assets (excluding equity).

Table 3.6 highlights these key measures for the general government sector.

**Table 3.6: Net debt and net financial liabilities as at 30 June for the general government sector**

	(\$million)					
	1999 Actual	2009 Actual <sup>(a)</sup>	2010 Revised	2011 Estimate	2012 Estimate	2013 Estimate
<b>Assets</b>						
Cash and deposits	728.4	2 846.0	2 264.8	2 446.3	2 813.5	3 260.6
Advances paid	0.3	269.0	282.7	297.3	4 514.7	4 480.7
Investments, loans and placements	1 751.6	2 550.6	2 663.3	2 644.8	2 636.0	2 650.3
<b>Total</b>	<b>2 480.3</b>	<b>5 665.5</b>	<b>5 210.8</b>	<b>5 388.4</b>	<b>9 964.1</b>	<b>10 391.5</b>
<b>Liabilities</b>						
Deposits held and advances received	159.7	316.4	315.7	315.0	314.5	314.5
Borrowings	7 112.4	10 640.8	14 787.1	18 365.2	25 451.1	26 042.5
<b>Total</b>	<b>7 272.1</b>	<b>10 957.2</b>	<b>15 102.8</b>	<b>18 680.2</b>	<b>25 765.6</b>	<b>26 357.0</b>
<b>Net debt</b>	<b>4 791.8</b>	<b>5 291.7</b>	<b>9 892.0</b>	<b>13 291.8</b>	<b>15 801.5</b>	<b>15 965.5</b>
Superannuation liabilities	11 432.4	20 672.3	20 722.9	21 048.6	21 404.7	21 611.6
<b>Net debt plus superannuation liabilities</b>	<b>16 224.2</b>	<b>25 964.0</b>	<b>30 614.9</b>	<b>34 340.4</b>	<b>37 206.1</b>	<b>37 577.1</b>
Other liabilities (net) <sup>(b)</sup>	2 535.5	6 412.3	6 707.5	6 753.3	6 716.2	6 757.7
<b>Net financial liabilities</b>	<b>18 759.7</b>	<b>32 376.3</b>	<b>37 322.4</b>	<b>41 093.7</b>	<b>43 922.3</b>	<b>44 334.8</b>
		(per cent)				
<b>Net debt to GSP <sup>(c)</sup></b>	3.1	1.9	3.5	4.5	5.1	4.9
<b>Net debt plus superannuation liabilities to GSP <sup>(c)</sup></b>	10.3	9.4	10.8	11.5	11.9	11.4
<b>Net financial liabilities to GSP <sup>(c)</sup></b>	11.9	11.8	13.1	13.8	14.1	13.5

Source: Department of Treasury and Finance

Notes:

- (a) As published in the 2008-09 Financial Report for the State of Victoria.
- (b) Other net liabilities include other employee entitlements and provisions and other non-equity liabilities, less other non-equity assets.
- (c) Published ratios to GSP may vary from year to year due to revisions to ABS GSP data.

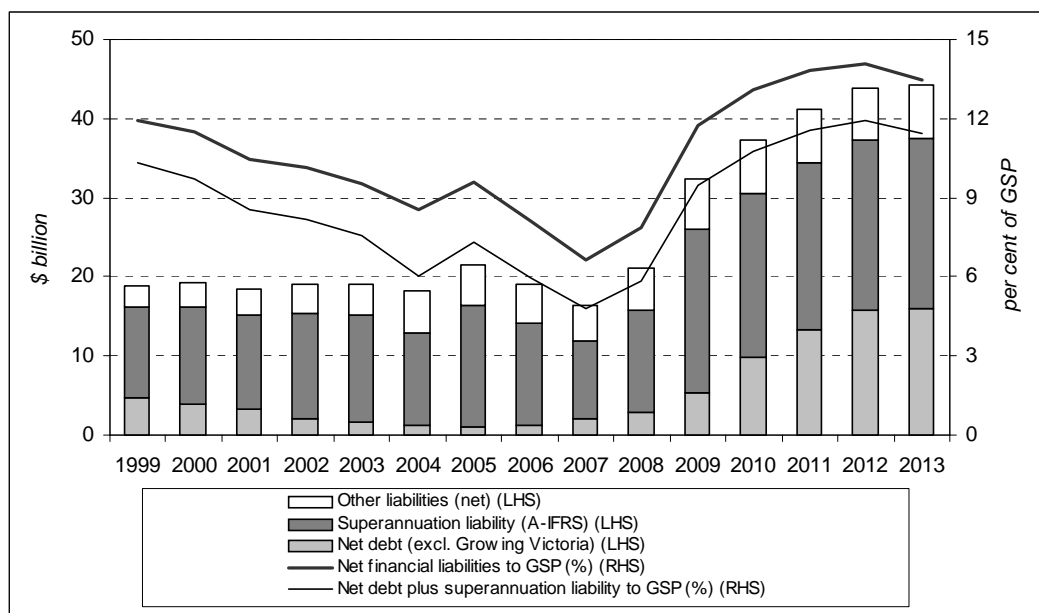
As shown in Table 3.6, general government net debt is projected to increase from \$5 292 million at June 2009 to \$15 966 million at June 2013. As a proportion of GSP, net debt is projected to rise from 1.9 per cent of GSP at 30 June 2009, to finish at 4.9 per cent of GSP at 30 June 2013. Net debt forecasts as a percentage of the economy and in dollar terms are now lower than projected in the *2009-10 Budget* reflecting prudent financial management and improved economic growth in Victoria.

This pattern of net debt levels over the forward estimates period reflects the Government's application of borrowings to its substantial and historically high infrastructure program, along with its plan to ensure that the level of net debt remains consistent with a triple-A credit rating.

Chart 3.1 shows that, as a share of GSP, general government net financial liabilities are expected to increase from 11.8 per cent at 30 June 2009 to 13.5 per cent at 30 June 2013. Since the *2009-10 Budget*, projected net financial liabilities at 30 June 2013 have been revised downwards by \$4.4 billion, largely reflecting a \$4 billion reduction in the superannuation liability. This reduction in the superannuation liability is primarily due to:

- an increase in the discount rate that is used to value the superannuation liability, from 4.7 per cent a year as at 31 March 2009 (the date used for the *2009-10 Budget* estimates) to 5.5 per cent a year as at 30 September 2009 (the date used for *Budget Update* estimates). This movement in the discount rate is estimated to have reduced the reported superannuation liability by approximately \$3 billion; and
- higher than expected investment returns on superannuation assets, particularly during the first quarter of the current financial year, which is estimated to have reduced the superannuation liability by a further \$1 billion.

**Chart 3.1: Net financial liabilities as at 30 June for the general government sector** <sup>(a)</sup>



Source: Department of Treasury and Finance

Note:

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

## NON-FINANCIAL PUBLIC SECTOR

The financial estimates of the non-financial public sector (NFPS) are 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 PNFCs.

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 triple-A 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 predominantly all revisions to the budget are largely reflected in the general government sector's operating statement, which has been discussed earlier in this chapter. However, as shown in Chapter 6, *Supplementary Uniform Presentation Framework Tables*, there has been a general downward revision to the PNFC sector net result from transactions as a result of higher depreciation costs, stemming from the adoption of fair value reporting standards at 30 June 2009 and the subsequent revaluation of water and transport assets. While the operating results for the PNFC sector have been affected negatively by this outcome, the balance sheet has been strengthened significantly by the new reporting standards.

### Summary balance sheet

**Table 3.7: Summary balance sheet as at 30 June for the non-financial public sector**

	(\$ billion)					
	1999 Actual AAS	2009 Actuals	2010 Revised	2011 Estimate	2012 Estimate	2013 Estimate
<b>Assets</b>						
Non-financial assets	57.0	158.0	168.3	176.2	189.7	194.7
Financial assets	7.2	11.8	10.9	11.1	11.4	11.6
Investments in other sector entities	1.2	0.8	2.0	2.7	3.1	3.5
<b>Total assets</b>	<b>65.4</b>	<b>170.6</b>	<b>181.2</b>	<b>190.0</b>	<b>204.2</b>	<b>209.9</b>
<b>Liabilities</b>						
Superannuation	11.4	20.8	20.8	21.1	21.5	21.7
Borrowings	9.9	18.0	24.1	29.0	37.2	38.3
Other liabilities	6.2	12.0	11.6	11.5	11.2	11.0
<b>Total liabilities</b>	<b>27.5</b>	<b>50.8</b>	<b>56.5</b>	<b>61.6</b>	<b>69.9</b>	<b>71.0</b>
<b>Net assets</b>	<b>37.9</b>	<b>119.8</b>	<b>124.6</b>	<b>128.4</b>	<b>134.3</b>	<b>138.8</b>

Source: Department of Treasury and Finance

Table 3.7 shows the summary NFPS balance sheet. Net assets are expected to increase from \$119.8 billion at 30 June 2009 to \$138.8 billion in June 2013. This is largely due to infrastructure spending and forecast asset revaluations over the forward estimates period. As mentioned previously in the chapter, the relatively large increase in non-financial assets from budget is due to the adoption of fair value reporting standards at 30 June 2009.

NFPS borrowings are expected to rise from \$18.0 billion at June 2009 to \$38.3 billion at June 2013, remaining relatively in line with the budget estimate and supporting the State's \$30.6 billion net infrastructure program over this period. Of the new borrowings expected to be incurred over the four years to June 2013, approximately 34 per cent will be by the PNFC sector where it will be largely serviced through sales and revenue generated from commercial operations.

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

## Cash flows

Table 3.8 provides a summary of cash generated through the operations of the NFPS, and how that cash is applied to infrastructure investment, and the associated impact on net debt.

**Table 3.8: Application of cash resources for the non-financial public sector**

	(\$million)			
	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Net result from transactions</b>	<b>( 55.0)</b>	<b>702.0</b>	<b>430.3</b>	<b>1 173.4</b>
Add back: Non-cash income and expenses (net) <sup>(a)</sup>	2 941.6	3 187.3	3 516.2	3 653.7
<b>Net cash flow from operating activities</b>	<b>2 886.6</b>	<b>3 889.2</b>	<b>3 946.5</b>	<b>4 827.1</b>
Less:				
<b>Net investment in fixed assets</b>				
Expenditure on approved projects	9 820.6	8 648.9	6 432.3	5 325.8
Capital provision approved but not yet allocated	..	331.0	555.0	701.0
Proceeds from asset sales	( 364.7)	( 363.7)	( 236.8)	( 294.9)
<b>Total net investment in fixed assets</b>	<b>9 456.0</b>	<b>8 616.2</b>	<b>6 750.5</b>	<b>5 731.8</b>
Finance leases <sup>(b)</sup>	92.1	133.3	5 056.7	15.0
Other investment activities (net)	4.7	36.9	99.8	138.8
<b>Decrease/(increase) in net debt</b>	<b>(6 666.2)</b>	<b>(4 897.2)</b>	<b>(7 960.5)</b>	<b>(1 058.5)</b>

Source: Department of Treasury and Finance

Notes:

- (a) Includes depreciation and movements in the unfunded superannuation liability and liability for employee benefits.
- (b) The finance lease amounts in 2009-10 and 2010-11 relate to the Partnerships Victoria in Schools project and the finance leases in 2011-12 relate to the redevelopment of the Royal Children's Hospital and the desalination plant at Wonthaggi. A finance lease is also recorded across the budget and forward estimates period in relation to VicTrack rolling stock.

Net investment in fixed assets by the NFPS is estimated to be \$9.5 billion in 2009-10, and will reach an estimated total of \$30.6 billion for the four years to 2012-13. Except for the reclassification of the desalination project at Wonthaggi as a finance lease, this remains in line with the \$32.1 billion investment in fixed assets estimated in the 2009-10 Budget. Of the investment in new infrastructure, it is estimated that 51 per cent will be funded from cash operating surpluses.

The Government has already announced significant infrastructure investments for the PNFC sector, such as the Northern Victoria Irrigation Renewal Project, as well as the desalination project at Wonthaggi which will help diversify and secure water supplies for the long term.

## Net debt and net financial liabilities

As Table 3.9 shows, NFPS net debt is projected to be 9.5 per cent of GSP as at 30 June 2013. 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 \$10.7 billion at 30 June 2009 to \$31.3 billion as at 30 June 2013. This result is largely consistent with the estimate presented in the *2009-10 Budget*.

**Table 3.9: Net debt and net financial liabilities as at 30 June for the non-financial public sector.**

	(\$ million)					
	1999 Actual	2009 Actual <sup>(a)</sup>	2010 Revised	2011 Estimate	2012 Estimate	2013 Estimate
<b>Assets</b>						
Cash and deposits	1 182.5	3 561.9	2 807.1	2 999.5	3 317.8	3 492.6
Advances paid	7.5	125.8	109.3	102.7	94.7	90.8
Investments, loans and placements	2 852.1	4 059.7	4 276.2	4 089.9	4 000.6	3 872.1
<b>Total</b>	<b>4 042.1</b>	<b>7 747.4</b>	<b>7 192.6</b>	<b>7 192.1</b>	<b>7 413.1</b>	<b>7 455.5</b>
<b>liabilities</b>						
Deposits held and advances received	214.0	417.0	419.2	415.4	413.2	413.4
Borrowings	9 886.4	18 026.8	24 136.0	29 036.5	37 220.1	38 320.8
<b>Total</b>	<b>10 100.4</b>	<b>18 443.8</b>	<b>24 555.2</b>	<b>29 451.9</b>	<b>37 633.3</b>	<b>38 734.2</b>
<b>Net debt</b>	<b>6 058.3</b>	<b>10 696.4</b>	<b>17 362.6</b>	<b>22 259.8</b>	<b>30 220.2</b>	<b>31 278.7</b>
Superannuation liability	11 432.4	20 755.1	20 789.5	21 114.0	21 471.1	21 679.3
<b>Net debt plus superannuation liabilities</b>	<b>17 490.7</b>	<b>31 451.6</b>	<b>38 152.2</b>	<b>43 373.8</b>	<b>51 691.4</b>	<b>52 958.1</b>
Other liabilities (net) <sup>(b)</sup>	3 343.2	7 529.4	7 451.7	7 144.7	6 809.8	6 447.1
<b>Net financial liabilities</b>	<b>20 833.8</b>	<b>38 981.0</b>	<b>45 603.9</b>	<b>50 518.5</b>	<b>58 501.1</b>	<b>59 405.2</b>
		(per cent)				
<b>Net debt to GSP <sup>(c)</sup></b>	3.9	3.9	6.1	7.5	9.7	9.5
<b>Net debt plus superannuation liabilities to GSP <sup>(c)</sup></b>	11.1	11.4	13.4	14.6	16.6	16.1
<b>Net financial liabilities to GSP <sup>(c)</sup></b>	13.3	14.2	16.0	17.0	18.7	18.1

Source: Department of Treasury and Finance

Notes:

- (a) As published in the 2008-09 Financial Report for the State of Victoria.
- (b) Other net liabilities include other employee entitlements and provisions and other non equity assets and liabilities.
- (c) Published Ratios to GSP may vary from year to year due to revisions to the ABS GSP data.

Since the *2009-10 Budget* in May, projected net financial liabilities for the NFPS as at 30 June 2013 have been revised downwards by \$3.9 billion predominantly due to a decrease in the superannuation liability.

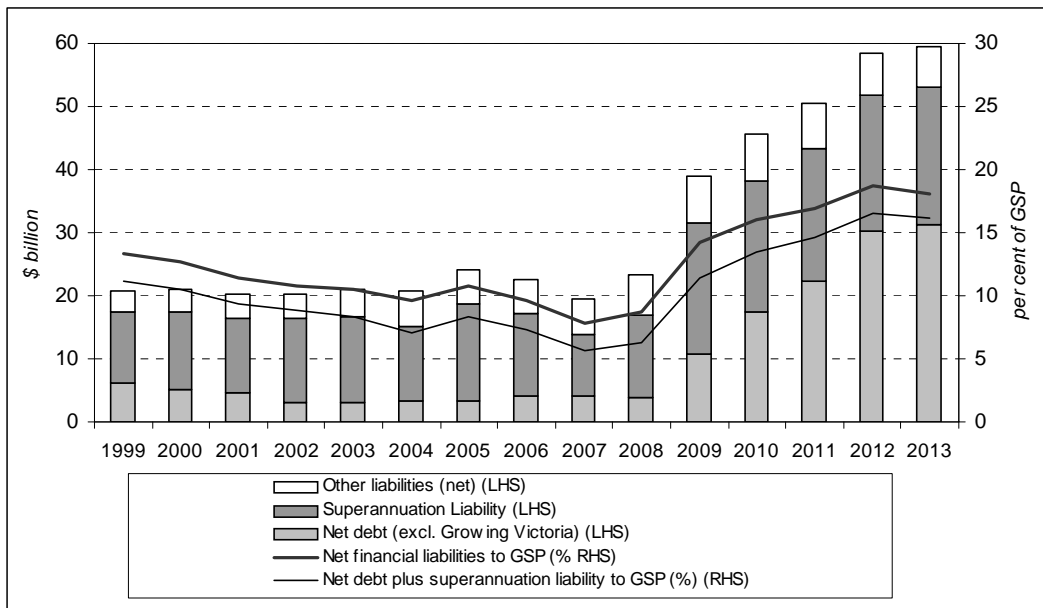


Net debt plus superannuation liabilities are forecast to increase to \$53.0 billion by 30 June 2013, representing a decrease of \$3.9 billion in comparison to the 2009-10 Budget. These decreases again predominantly reflect the impact of the decrease in the net superannuation liability as discussed earlier in the chapter.

The international rating agencies, Standard & Poor's and Moody's Investors Service consider a range of financial indicators in assessing a state's credit rating. A key indicator is NFPS net debt plus superannuation liabilities to GSP. This ratio is forecast to increase from 11.4 per cent on 30 June 2009 to 16.1 per cent on 30 June 2013, and remains well within the ratio required to maintain the triple-A rating. Victoria's credit rating was reaffirmed by Moody's Investors Service in January 2009 and Standard & Poor's in September 2009.

Chart 3.2 shows that, as a share of GSP, NFPS net financial liabilities are expected to increase from 14.2 per cent on 30 June 2009 to 18.1 per cent on 30 June 2013. As per NFPS net debt plus superannuation liabilities to GSP, this is lower than estimated at the time of the 2009-10 Budget, reflecting the impact of a decrease in the superannuation liability due to changes in the bond rate used to calculate the net present value of the liability and improvements in equity markets as they recover from the global recession, as well as an improvement in estimated GSP.

**Chart 3.2 Net financial liabilities as at 30 June for the non financial public sector <sup>(a)</sup>**



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

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- The Victorian Government's response to the economic downturn has focused on securing jobs and enhancing the competitiveness of the State. The Government is delivering the largest infrastructure investment program in the State's history, while pursuing an active reform program to position Victoria for recovery, and to address medium and longer term challenges.
- There is substantial investment in skills reform, and further enhancements are being made to improve business cost competitiveness. Meanwhile, the Government is developing enduring planning and regulatory reforms to encourage new private sector investment.
- The public sector is also continuing to reform its operations to improve efficiency so that key government services can be maintained during the current fiscally-constrained environment.
- It will be important to embed existing reforms and drive new areas of reform in order to maintain Victoria's economic growth and competitiveness.

Victoria's impressive record in economic reform has contributed to the State's ability to withstand the significant challenges presented by the global recession.

The Victorian Government's strategy in responding to the economic downturn has complemented that of the Commonwealth Government, and has focused on securing jobs and enhancing Victoria's competitiveness, so that the State is well placed to take advantage of the economic recovery.

To maintain economic activity and employment in the near term, the Victorian Government has stepped in to unblock approval processes for private sector projects, and is delivering the largest infrastructure investment program in the State's history. Major capital projects underway include the early stages of the *Victorian Transport Plan*, the continuation of the *Victorian Schools Plan*, major water supply augmentation projects, major hospital redevelopments and projects being delivered in partnership with the Commonwealth Government through the *Nation Building – Economic Stimulus Plan*, such as in education and social housing.

These infrastructure investments will have long-lasting benefits. They upgrade the State's productive capacity, thereby helping to boost Victoria's long-term competitiveness.

In addition, Victoria is continuing to undertake reforms in a number of areas to position the State for recovery by boosting competitiveness and helping to address the longer term challenges posed by slowing productivity, the ageing population and climate change. These include:

- reforms to education and training to boost skills;
- initiatives to reduce the burden of state regulation to strengthen business competitiveness;
- actions to facilitate private sector investment;
- improvements to the efficiency of the Government's own operations;
- measures to ease the adjustment to a carbon-constrained economy; and
- working with other Australian governments to improve Commonwealth-State financial arrangements, and drive further reform at the national level.

The strength of the economic recovery in Victoria and future levels of prosperity will depend in part on maintaining momentum of this ambitious economic reform agenda.

## **BOOSTING THE SKILLS OF THE WORKFORCE**

The future competitiveness of Victoria will depend in large part on the availability of a skilled workforce. Skills drive the performance of the State's industries and the performance of individual businesses. Building a skilled workforce involves investing in young Victorians to provide them with opportunities to grow and learn and investing in training to develop the skills of the workforce.

Victoria is working to improve early childhood, schooling and youth transition outcomes for all Victorian children and young people. The *Blueprint for Education and Early Childhood Development* released in September 2008 sets out the Government's five-year agenda for learning and development from birth to adulthood. In addition, Victoria, in partnership with the Commonwealth Government, is investing significant funds to deliver National Partnerships initiatives that will improve literacy and numeracy outcomes, provide better support for schools in disadvantaged areas, improve teacher quality and give every Victorian child access to 15 hours per week of early childhood education in the year before school by 2013.

For today's workforce and young people, boosting investment in training enables the development of skills that can be used as the economy recovers. Victoria is moving to a contestable training system that is more responsive to the needs of both individuals and business. At the heart of the reforms is the *Victorian Training Guarantee* that brings government-subsidised training within the reach of thousands more people.

Meanwhile, Victoria continues to work closely with the Commonwealth and other states and territories under the auspices of the Council of Australian Governments (COAG) to improve the delivery of education and training services.

The state-based reforms and COAG initiatives will boost the capacity of the education and training sectors to deliver what individuals and businesses need, and help to ensure Victoria is well positioned for the economic recovery.

## **IMPROVING BUSINESS COMPETITIVENESS**

A key priority for Victoria has been to keep taxes and charges on business low and competitive. Victoria is also a national leader in regulatory reforms to reduce the burden of red tape on businesses.

Reforms in these areas improve the national and international competitiveness of all Victorian businesses and foster economic growth.

### **Reducing the burden of regulation**

Key elements of Victoria's best practice regulation making and review frameworks include:

- an independent gatekeeper, the Victorian Competition and Efficiency Commission (VCEC) to assess the adequacy of the assessments of regulatory proposals;
- targeted reductions in the administrative and compliance burden of regulation through the recently-extended *Reducing the Regulatory Burden* initiative;
- the *Victorian Guide to Regulation*, which sets out the principles and characteristics of good regulation for all Victorian regulators;
- leadership in harmonisation of regulation through collaboration with other jurisdictions; and
- comprehensive public inquiries into regulatory matters conducted by the VCEC, the Essential Services Commission, and the State Services Authority.

Through the *Reducing the Regulatory Burden* initiative, introduced in 2006, the Government committed to cut the administrative burden of regulation (red tape) by 25 per cent over five years (\$256 million per annum).

In September 2009, the Treasurer announced a new target of a \$500 million reduction in regulatory burden by July 2012. The Treasurer also reported that departments have accelerated their regulatory review activities and, as a result, net reductions in administrative burdens based on current initiatives are now estimated to be in the order of \$246 million a year. The Treasurer will provide a further update in the second half of 2010.

The Treasurer also announced further measures to enhance Victoria's regulatory system, including:

- the expansion of *Reducing the Regulatory Burden* initiative to include substantive compliance and delay costs in addition to the existing focus on the administrative burden of regulation;
- updating the *Victorian Guide to Regulation* to ensure that it incorporates the very latest experience in designing efficient regulation;
- enhancing the way that government agencies work together to minimise the burden on the community when designing regulation; and
- strengthening the Victorian Government's approach to ensuring the ongoing effectiveness and viability of existing regulations.

Local government authorities in Victoria have a significant impact on businesses, both through the regulations they impose and/or administer on behalf of the State, as well as through direct engagement with business. In August 2009, consistent with its broader commitment to promoting efficient and effective regulation by removing unnecessary administrative requirements, the Government asked the VCEC to undertake a comprehensive inquiry to examine the scope for further streamlining of regulation and processes administered by local government that impact on business. The inquiry will examine consistencies between local councils in regulation and related administrative practices. The VCEC's draft report is scheduled for release in April 2010.

Victoria continues to be at the forefront of action nationally to reduce the burden of regulation for Victorian businesses operating across state borders. Victoria is progressing well in its implementation of the COAG Seamless National Economy National Partnership. Most recently, COAG signed an Intergovernmental Agreement (IGA) to underpin the establishment of national Australian Consumer Law and a further IGA covering national business names registration. These initiatives will streamline and harmonise the obligations of a large proportion of Victorian businesses operating across state borders.

### **Business tax competitiveness**

The Victorian Government remains committed to providing a fair and efficient tax system that is competitive with other states.

The Government has announced and implemented substantial tax reform over the past 10 years. These reforms aim to improve economic outcomes by increasing the efficiency and equity of the Victorian tax system, and include:

- over \$5 billion worth of announced tax cuts;
- abolishing eight state taxes as agreed with the Commonwealth Government under the Intergovernmental Agreement on Federal Financial Relations, faster than any other state;

- a significant reduction in the payroll tax rate;
- a flattening out of the land tax scale and significant reductions in land tax rates to moderate the impact of the property market boom; and
- measures to reduce the capacity for tax evasion so that taxpayers who are doing the right thing are not unduly burdened.

An examination of Victoria's competitiveness with other Australian jurisdictions is provided in Chapter 1.

The Victorian Government welcomes the Henry Review into *Australia's Future Tax System* (which includes the examination of state taxes and transfers). The review represents an opportunity to identify major reforms that will make the Australian tax system simpler, fairer and more transparent, and drive economic growth.

Over decades, our tax and transfer system has changed incrementally, often without a clear plan or direction, and sometimes with unintended consequences.

Significant improvements to our tax and transfer system can help prepare Australia for a strong recovery and a prosperous future, by ensuring the most productive use of our resources.

To make these changes, the Commonwealth and state governments will need to work together. Doing so will ensure a more efficient and effective tax system that provides sufficient revenue for governments to deliver important public services.

In its submission to the review, the Victorian Government highlighted the need for reform in the following areas:

- **Improving workforce participation and productivity.** The existing interaction between personal income tax and the welfare system can create high effective marginal tax rates, which discourages people from entering the workforce or working more;
- **Reducing the complexity of the tax and transfer system.** For example, the Commonwealth could consider reducing the number of tax expenditures, simplifying the welfare system and its administration, and standardising taxation of capital; and
- **Providing state governments with better access to secure taxation revenue to fund services.** Much of the tax paid in Australia is not spent by the level of government that collects it. The Commonwealth collects over 85 per cent of taxes, but is only responsible for around half of expenditure on government services, with state governments having primary responsibility for school education, hospitals, infrastructure, police and emergency services, and a range of other areas. This imbalance results in confused accountability, blame shifting, and inefficient churn of tax revenues between levels of government. It also reduces the flexibility for states to respond to community needs, plan future investment and respond to shocks and crises. Unless addressed, future cost pressures, including an ageing population and climate change, will put states in an increasingly difficult position.

## FACILITATING PRIVATE SECTOR INVESTMENT

The private sector is a major provider of infrastructure, both in its own right, and in partnership with the Government. Investment by the private sector is a key component of aggregate demand and the main driver of productive capacity. Reforms that remove impediments to private activity are therefore critical to sustaining employment and boosting economic growth.

The Government has already taken action to facilitate approval of a wide range of major private sector projects since April 2009, including housing, retail and office space developments.

The Government has also released new guidelines for precinct structure planning to enable the development of master plans for the creation of suburbs of more than 3 000 dwellings each. The guidelines are part of a package of reforms to support the creation of the Urban Growth Zone announced last year to streamline the development process in Melbourne's growth areas of Casey-Cardinia, Hume, Whittlesea, Melton – Caroline Springs and Wyndham.

Meanwhile, the number of precinct structure plans (PSPs) prepared by the Growth Areas Authority continues to rise. PSPs are master plans for communities in growth areas, which guide development of roads, shopping centres, parks, housing, employment and connections to transport. Once in place, PSPs enable fast tracked development by substantially reducing the number of plans and approvals needed before construction activity can commence (including approval for native vegetation clearance). The aim is to complete 40 PSPs by 2012, which will enable 90 000 new homes to be created.

In addition to these initiatives already underway, the Government is undertaking further reform to create an environment that is even more conducive to future private sector investment.

For example, the VCEC has examined the impact of current environmental approval processes on the delivery of investment projects as part of its inquiry into environmental regulation. The VCEC's final report was submitted to the Government in July 2009, and will be publicly released, along with the Government's response, by 23 January 2010.

Meanwhile, the Government continues to progress permanent improvements in planning processes. For example, it is undertaking a review of the *Planning and Environment Act 1987* with a view to modernising the Act and enhancing the operation of Victoria's planning system. Following a discussion paper, the Government released a number of papers in August 2009 in response to issues raised during the public submission process. In summary, the headline reforms proposed in the response papers include:

- updating the objectives of planning in Victoria;
- improving the operation of the amendment process;
- improving the operation of the permit process;



- introducing a new procedure for the consideration of projects declared as state significant major development; and
- providing for monitoring and reporting on the performance of the planning system through annual reporting.

A draft Bill will be released for further comment.

## **IMPROVING THE EFFICIENCY OF GOVERNMENT'S OWN OPERATIONS**

The challenging economic environment has forced the private sector to examine ways to improve its productivity. In the same way, the current fiscally constrained environment has reinforced the need for the Government to review and reform its own operations with a view to improving efficiency and maximising the value of Victorian taxpayers' money.

The Government is restraining its corporate services costs through a series of *Efficient Government* initiatives, including:

- establishing a new shared library service for government departments and agencies; consolidating Victorian Government car pools;
- establishing a shared facilities management service for Victorian Government accommodation; and
- a single information technology service for government through standardising core information and communication technology services across government.

Another important source of efficiency improvement is through better asset use. Recognising this, the Government asked the VCEC to undertake an inquiry into the potential for increased sharing of government and community facilities in Victoria. In its consultation draft report released in June 2009, the VCEC highlighted four themes driving its draft recommendations:

- reducing the burden of administration and regulation, rules and obligations that affect shared facilities;
- providing better support for community groups in forming and managing shared facilities;
- increasing the flexibility and efficiency of government resources used to support shared facilities; and
- improving the process for identifying sharing opportunities.

Following a further round of consultation, the VCEC presented its final report to the Government on 14 September 2009. It will be publicly released, along with the Government's response, within six months of this date.

Local government is another area where improvements in efficiencies are being explored. In August 2009, the Premier announced that the Essential Services

Commission (ESC) would undertake an inquiry into developing a performance assessment and benchmarking regime for local governments. The Minister for Finance issued formal terms of reference in October.

Through greater transparency and benchmarking, residents will be better informed about local government service delivery performance. The ESC will publish a draft report on the appropriate reporting framework before the end of March 2010 for public comment, with a final report provided to the Minister for Finance and the Minister for Local Government before the end of June 2010.

## **ADDRESSING THE CLIMATE CHANGE CHALLENGE**

Fundamental to the Commonwealth Government's proposed climate change strategy is the introduction of a Carbon Pollution Reduction Scheme (CPRS). This would place a cap on the amount of carbon pollution industry can emit and, by requiring affected businesses to buy a permit for each tonne of carbon they contribute to the atmosphere, would effectively introduce an explicit price for carbon. Determined by the market, this carbon price will be the driving factor behind structural adjustments to the carbon-constrained economy. It will change the way businesses make investment decisions, households use energy and how governments make decisions.

With the impending introduction of the CPRS, broader national reform is required in three areas:

- ensuring that the CPRS and expanded renewable energy target work effectively and fairly;
- smoothing the transition to a low-carbon economy; and
- developing a nationally cooperative approach to long-term adaptation to climate change.

To respond to these issues, the development and implementation of a national climate change strategy should be led by COAG. The strategy should address priorities for the use of permit auction revenue after the first five years, agreement on funding arrangements for adaptation initiatives, and a plan for a national electricity grid that is capable of supporting a growing renewable energy sector, carbon capture and storage and distributed electricity generation.

## **REFORM OF COMMONWEALTH-STATE FINANCIAL RELATIONS**

The nature of financial relations between the Commonwealth and state governments will be a key determinant of the success of future nation building reforms.

A new framework for federal financial relations came into effect on 1 January 2009. The framework is designed to improve the quality and effectiveness of government services and provide the states with increased flexibility in the way they deliver jointly funded services.

There has been a major rationalisation in the number of specific purpose payments (SPPs) to the states from the Commonwealth, with the creation of five new broad SPPs covering health, schools, skills and workforce development, affordable housing and disabilities. Another new form of funding, National Partnership (NP) payments, has been created, which will fund specific projects and facilitate and/or reward states that deliver nationally significant reforms.

The new federal financial framework provides a clearer specification of roles and responsibilities of each level of government and an improved focus on public accountability for better outcomes and service delivery. The independent COAG Reform Council (CRC) will provide annual reports to COAG containing the performance data to assist the public in assessing governments' progress against agreed objectives outcomes and outputs. The first two reports, on the National Education Agreement and National Agreement for Skills and Workforce, were released on 5 November 2009. These reports establish a baseline against which to measure future changes in performance.

The COAG reforms to federal financial relations are a positive step in establishing genuinely collaborative approaches to delivering core services. The challenge now facing governments is to use these reforms to ensure that more simple and flexible agreements are developed so that resources are more focused on the achievement of improved outcomes for the community.

## **FURTHER REFORM IS NEEDED TO BOOST COMPETITIVENESS**

The global recession will have profound ongoing implications for the global economy, global credit markets and global trade balances. Latest projections indicate the pace of recovery will be sluggish for some years to come.

Victoria has weathered the impact of the global recession relatively well to date – in part because of its strong track record of ambitious economic reform – yet it will be faced with a challenging economic environment going forward. As we recover from the economic downturn, some of our competitors are likely to emerge leaner, stronger and more resilient.

To compete in this tougher environment, Victoria will need to take fresh action to drive down costs, foster innovation, harness physical and human capital and leverage its liveability in order to attract new investment and continue to grow and prosper.

At the same time, Victoria must continue to meet the very significant medium and longer term challenges of population growth, population ageing and climate change while maintaining fiscal sustainability. For example, there will be an increased focus on pursuing potential reforms in the delivery of government services such as transport, health, community and disability services.

To meet both short and longer term challenges, Victoria's economic policy settings and reform agenda need to focus on enhancing the State's underlying competitiveness and attractiveness as a place to live, work and invest.



## CHAPTER 5: ESTIMATED FINANCIAL STATEMENTS AND NOTES

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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, *Economic and Fiscal Strategies and Objectives*), in a manner and form determined by the Minister.

Consistent with the form of the estimated financial statements presented in the *2009-10 Budget*, 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 *2009-10 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.

## Estimated financial statements for the Victorian general government sector

**Table 5.1: Estimated operating statement for the general government sector for the financial year ending 30 June**

(\$ million)						
	Notes	2009-10 Budget <sup>(a)</sup>	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Revenue</b>						
Taxation revenue	2	13 273.7	13 495.3	14 162.7	14 611.7	15 444.6
Interest		434.1	400.5	416.3	627.8	897.8
Dividends and income tax equivalent and rate equivalent revenue	3	379.4	346.1	513.5	626.2	655.3
Sales of goods and services	4	5 044.1	4 966.4	5 355.8	5 609.2	5 789.0
Grants	5	21 554.1	22 181.1	21 439.5	21 497.7	22 700.2
Other current revenue	6	1 702.9	1 742.0	1 639.6	1 612.8	1 581.7
<b>Total revenue</b>		<b>42 388.3</b>	<b>43 131.4</b>	<b>43 527.5</b>	<b>44 585.5</b>	<b>47 068.5</b>
<b>Expenses</b>						
Employee expenses		15 276.5	15 194.7	15 889.1	16 641.0	17 461.8
Superannuation interest expense	7	659.2	866.7	801.2	820.5	838.2
Other superannuation	7	1 599.3	1 512.4	1 551.3	1 589.4	1 681.5
Depreciation and amortisation	8	1 646.4	1 642.3	1 834.2	1 998.4	2 159.5
Interest expense	9	713.8	779.7	960.2	1 352.1	1 663.7
Other operating expenses		13 821.3	14 064.7	14 109.7	14 400.3	14 414.0
Grants and other transfers	10	8 442.3	8 809.0	7 456.3	7 044.9	7 059.6
<b>Total expenses</b>	11	<b>42 158.8</b>	<b>42 869.5</b>	<b>42 602.1</b>	<b>43 846.6</b>	<b>45 278.3</b>
<b>Net result from transactions – net operating balance</b>	<b>24(a)</b>	<b>229.5</b>	<b>261.9</b>	<b>925.4</b>	<b>738.8</b>	<b>1 790.2</b>
<b>Other economic flows included in net result</b>						
Net gain/(loss) on sale of non-financial assets		54.1	56.1	113.4	121.0	114.5
Net gain/(loss) on financial instruments at fair value		16.1	13.7	1.0	0.7	2.9
Net actuarial gains/(losses) of superannuation defined benefits plans	7	..	330.7	..	..	..
Other gains/(losses) from other economic flows	12	( 56.9)	( 157.4)	( 86.0)	( 87.1)	( 87.1)
<b>Total other economic flows included in net result</b>		<b>13.2</b>	<b>243.1</b>	<b>28.3</b>	<b>34.7</b>	<b>30.3</b>
<b>Net result<sup>(a)</sup></b>		<b>242.8</b>	<b>505.0</b>	<b>953.7</b>	<b>773.5</b>	<b>1 820.5</b>
<b>Other economic flows – other movements in equity</b>						
Revaluations of non-financial assets		3 168.2	2 957.1	2 014.6	5 049.7	2 727.1
Net gain on equity investments in other sector entities at proportional share of net assets	14	244.5	1 391.6	698.3	70.8	( 164.5)
Other movements in equity		( 5.9)	( 86.2)	10.5	37.4	54.9
<b>Total other economic flows – other movements in equity</b>		<b>3 406.8</b>	<b>4 262.5</b>	<b>2 723.4</b>	<b>5 157.9</b>	<b>2 617.4</b>

**Table 5.1: Estimated operating statement for the general government sector for the financial year ending 30 June (continued)**

		(\$ million)				
	Notes	2009-10 Budget <sup>(a)</sup>	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Comprehensive result – total change in net worth</b>	<b>24(b)</b>	<b>3 649.5</b>	<b>4 767.5</b>	<b>3 677.1</b>	<b>5 931.4</b>	<b>4 437.9</b>
<b>FISCAL AGGREGATES</b>						
<b>Net operating balance</b>		<b>229.5</b>	<b>261.9</b>	<b>925.4</b>	<b>738.8</b>	<b>1 790.2</b>
Less: Net acquisition of non-financial assets from transactions	15	3 490.4	3 393.9	2 853.7	2 092.5	891.2
<b>Net lending/(borrowing)</b>	<b>24(c)</b>	<b>(3 260.9)</b>	<b>(3 132.0)</b>	<b>(1 928.3)</b>	<b>(1 353.7)</b>	<b>899.0</b>

Source: The accompanying notes form part of these estimated financial statements.

Note:

- (a) Reclassification of unilaterally determined bad debts expenses from 'transactions' to 'other economic flows', has required re-presentation of the previously published 2009-10 Budget, consistent with new accounting standard requirements.

**Table 5.2: Estimated balance sheet as at 30 June**

(\$ million)						
	Notes	2010 Budget <sup>(a)</sup>	2010 Revised	2011 Estimate	2012 Estimate	2013 Estimate
<b>Assets</b>						
<i>Financial assets</i>						
Cash and deposits		2 583.7	2 264.8	2 446.3	2 813.5	3 260.6
Advances paid		299.8	282.7	297.3	4 514.7	4 480.7
Investments, loans and placements		2 641.6	2 663.3	2 644.8	2 636.0	2 650.3
Receivables	13	2 802.0	2 520.5	2 560.9	2 561.4	2 574.5
Investments accounted for using equity method		35.0	35.0	40.0	45.0	50.0
Investments in other sector entities	14	62 844.0	64 043.2	66 512.2	67 948.8	68 988.5
<b>Total financial assets</b>		<b>71 206.2</b>	<b>71 809.6</b>	<b>74 501.4</b>	<b>80 519.4</b>	<b>82 004.6</b>
<i>Non-financial assets</i>						
Inventories		249.4	251.4	251.4	251.3	251.0
Non-financial assets held for sale		67.5	64.5	55.0	45.4	35.9
Land, buildings, infrastructure, plant and equipment	16(a), 17	94 152.4	93 760.5	98 745.9	106 100.9	109 921.3
Other non-financial assets	18	665.5	664.0	667.6	645.7	645.7
<b>Total non-financial assets</b>		<b>95 134.8</b>	<b>94 740.4</b>	<b>99 720.0</b>	<b>107 043.3</b>	<b>110 854.0</b>
<b>Total assets</b>		<b>166 341.0</b>	<b>166 550.0</b>	<b>174 221.4</b>	<b>187 562.7</b>	<b>192 858.5</b>
<b>Liabilities</b>						
Deposits held and advances received		315.7	315.7	315.0	314.5	314.5
Borrowings	20	15 185.4	14 787.1	18 365.2	25 451.1	26 042.5
Payables		4 312.2	4 062.5	3 984.7	3 811.0	3 725.5
Superannuation	7(d)	20 959.0	20 722.9	21 048.6	21 404.7	21 611.6
Other employee benefits	21	4 466.3	4 434.1	4 619.8	4 776.1	4 935.3
Other provisions		759.0	766.4	749.7	735.6	721.5
<b>Total liabilities</b>		<b>45 997.7</b>	<b>45 088.7</b>	<b>49 083.0</b>	<b>56 492.9</b>	<b>57 350.9</b>
<b>Net assets</b>		<b>120 343.3</b>	<b>121 461.3</b>	<b>125 138.4</b>	<b>131 069.8</b>	<b>135 507.6</b>
Accumulated surplus/(deficit)		48 661.7	48 843.8	49 808.7	50 620.6	52 496.4
Reserves	23	71 622.1	72 558.0	75 270.2	80 389.7	82 951.7
Minority interest		59.5	59.5	59.5	59.5	59.5
<b>Net worth</b>	24(d)	<b>120 343.3</b>	<b>121 461.3</b>	<b>125 138.4</b>	<b>131 069.8</b>	<b>135 507.6</b>
<b>FISCAL AGGREGATES</b>						
Net financial worth		25 208.5	26 720.8	25 418.4	24 026.5	24 653.7
Net financial liabilities		37 635.5	37 322.4	41 093.7	43 922.3	44 334.8
Net debt		9 976.0	9 892.0	13 291.8	15 801.5	15 965.5

Source: The accompanying notes form part of these estimated financial statements.

Note:

(a) 2009-10 Budget is based on actual opening balances at 1 July 2009 plus 2009-10 budgeted movement.



**Table 5.3: Estimated cash flow statement for the financial year ending 30 June**

		(\$ million)				
	Notes	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Taxes received		13 431.6	13 845.6	14 255.0	14 621.5	15 554.4
Grants		21 554.1	22 180.7	21 439.5	21 497.7	22 700.2
Sales of goods and services <sup>(a)</sup>		5 573.7	5 492.8	5 884.0	6 181.9	6 408.2
Interest received		400.1	366.3	382.1	595.8	865.8
Dividends and income tax equivalent and rate equivalent receipts		389.0	367.8	522.5	638.4	654.2
Other receipts		1 518.7	1 440.7	1 406.4	1 430.1	1 429.1
<b>Total receipts</b>		<b>42 867.1</b>	<b>43 693.9</b>	<b>43 889.4</b>	<b>44 965.4</b>	<b>47 611.9</b>
<b>Payments</b>						
Payments for employees		(15 087.3)	(15 036.8)	(15 702.9)	(16 484.7)	(17 302.2)
Superannuation		(1 971.7)	(1 997.7)	(2 026.8)	(2 053.9)	(2 312.7)
Interest paid		( 675.5)	( 716.2)	( 898.7)	(1 293.9)	(1 610.5)
Grants and subsidies		(8 442.3)	(8 864.0)	(7 572.3)	(7 167.9)	(7 180.6)
Goods and services <sup>(a)</sup>		(14 002.9)	(14 404.6)	(14 359.1)	(14 683.3)	(14 733.0)
Other payments		( 376.0)	( 363.7)	( 371.4)	( 384.9)	( 404.4)
<b>Total payments</b>		<b>(40 555.8)</b>	<b>(41 383.0)</b>	<b>(40 931.2)</b>	<b>(42 068.7)</b>	<b>(43 543.4)</b>
<b>Net cash flows from operating activities</b>	22(b)	<b>2 311.3</b>	<b>2 310.9</b>	<b>2 958.2</b>	<b>2 896.7</b>	<b>4 068.4</b>
<b>Cash flows from investing activities</b>						
Purchases of non-financial assets	19	(5 228.6)	(5 136.0)	(4 737.1)	(3 485.4)	(3 303.7)
Sales of non-financial assets		222.8	262.9	250.4	264.7	253.0
Cash flows from investments in non-financial assets		(5 005.8)	(4 873.1)	(4 486.7)	(3 220.7)	(3 050.7)
Net cash flows from investments in financial assets for policy purposes		(1 954.8)	(1 983.6)	(1 758.2)	(1 353.2)	(1 143.3)
Net cash flows from investments in financial assets for liquidity management purposes		( 75.0)	( 99.1)	19.5	9.5	( 11.4)
<b>Net cash flows from investing activities</b>		<b>(7 035.6)</b>	<b>(6 955.8)</b>	<b>(6 225.4)</b>	<b>(4 564.4)</b>	<b>(4 205.4)</b>
<b>Cash flows from financing activities</b>						
Advances received (net)		( 0.7)	( 0.7)	( 0.7)	( 0.5)	..
Net borrowings		4 462.7	4 064.4	3 449.4	2 035.4	584.0
<b>Net cash flows from financing activities</b>		<b>4 462.0</b>	<b>4 063.7</b>	<b>3 448.7</b>	<b>2 034.9</b>	<b>584.0</b>

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

		(\$ million)				
	Notes	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>( 262.2)</b>	<b>( 581.2)</b>	<b>181.5</b>	<b>367.2</b>	<b>447.1</b>
Cash and cash equivalents at beginning of reporting period		2 845.5	2 845.5	2 264.3	2 445.8	2 813.0
<b>Cash and cash equivalents at end of reporting period</b>	<b>22(a)</b>	<b>2 583.3</b>	<b>2 264.3</b>	<b>2 445.8</b>	<b>2 813.0</b>	<b>3 260.1</b>
<b>FISCAL AGGREGATES</b>						
Net cash flows from operating activities		2 311.3	2 310.9	2 958.2	2 896.7	4 068.4
Net cash flows from investments in non-financial assets		(5 005.8)	(4 873.1)	(4 486.7)	(3 220.7)	(3 050.7)
<b>Cash surplus/(deficit)</b>	<b>24(e)</b>	<b>(2 694.4)</b>	<b>(2 562.2)</b>	<b>(1 528.5)</b>	<b>( 324.0)</b>	<b>1 017.7</b>

Source: The accompanying notes form part of these estimated financial statements.

Note:

(a) Inclusive of goods and services tax.

**Table 5.4: Estimated statement of changes in equity for the financial year ending 30 June**

	(\$ million)			
<i>General government sector</i>	<i>Equity at 1 July</i>	<i>Total comprehensive result</i>	<i>Transactions with owners in their capacity as owners</i>	<i>Equity at 30 June</i>
<b>2009-10</b>				
Accumulated surplus/(deficit)	48 424.8	505.0	..	48 929.8
Other movements in equity		( 86.1)	..	( 86.1)
Minority interest	39.5	..	20.0	59.5
Property, plant and equipment revaluation reserve	29 776.6	2 957.1	..	32 733.7
Net movements in other reserves	788.1	( 0.2)	..	787.9
Accumulated net gain on equity investments in other sector entities	37 644.8	1 391.6	..	39 036.4
<b>Total equity at end of the period</b>	<b>116 673.8</b>	<b>4 767.5</b>	<b>20.0</b>	<b>121 461.3</b>
<b>2010-11</b>				
Accumulated surplus/(deficit)	48 843.8	953.7	..	49 797.5
Other movements in equity	..	11.2	..	11.2
Minority interest	59.5	..	..	59.5
Property, plant and equipment revaluation reserve	32 733.7	2 014.6	..	34 748.3
Net movements in other reserves	787.9	( 0.7)	..	787.2
Accumulated net gain on equity investments in other sector entities	39 036.4	698.3	..	39 734.7
<b>Total equity at end of the period</b>	<b>121 461.3</b>	<b>3 677.1</b>	<b>..</b>	<b>125 138.4</b>
<b>2011-12</b>				
Accumulated surplus/(deficit)	49 808.7	773.5	..	50 582.2
Other movements in equity	..	38.4	..	38.4
Minority interest	59.5	..	..	59.5
Property, plant and equipment revaluation reserve	34 748.3	5 049.7	..	39 797.9
Net movements in other reserves	787.2	( 1.0)	..	786.2
Accumulated net gain on equity investments in other sector entities	39 734.7	70.8	..	39 805.5
<b>Total equity at end of the period</b>	<b>125 138.4</b>	<b>5 931.4</b>	<b>..</b>	<b>131 069.8</b>
<b>2012-13</b>				
Accumulated surplus/(deficit)	50 620.6	1 820.5	..	52 441.1
Other movements in equity	..	55.4	..	55.4
Minority interest	59.5	..	..	59.5
Property, plant and equipment revaluation reserve	39 797.9	2 727.1	..	42 525.0
Net movements in other reserves	786.2	( 0.5)	..	785.7
Accumulated net gain on equity investments in other sector entities	39 805.5	( 164.5)	..	39 641.0
<b>Total equity at end of the period</b>	<b>131 069.8</b>	<b>4 437.9</b>	<b>..</b>	<b>135 507.6</b>

## NOTES TO THE ESTIMATED FINANCIAL STATEMENTS

Note 1:	Statement of significant accounting policies and forecast assumptions ....	63
Note 2:	Taxation .....	68
Note 3:	Dividends and income tax equivalent and rate equivalent revenue .....	69
Note 4:	Sales of goods and services.....	69
Note 5:	Grants .....	69
Note 6:	Other current revenue .....	70
Note 7:	Superannuation .....	70
Note 8:	Depreciation and amortisation.....	73
Note 9:	Interest expense .....	73
Note 10:	Grants and other transfers.....	74
Note 11:	Total expenses by government purpose classification.....	74
Note 12:	Other gains/(losses) from other economic flows .....	75
Note 13:	Receivables .....	75
Note 14:	Reconciliation of net gain on equity investments in other sector entities at proportional share of net assets.....	75
Note 15:	Net acquisition of non-financial assets .....	76
Note 16:	Land, buildings, infrastructure, plant and equipment.....	76
Note 17:	Reconciliation of movements in land, buildings, infrastructure, plant and equipment.....	78
Note 18:	Other non-financial assets.....	78
Note 19:	Assets classified by government purpose classification.....	79
Note 20:	Borrowings.....	80
Note 21:	Other employee benefits .....	80
Note 22:	Cash flow information .....	80
Note 23:	Reserves.....	81
Note 24:	Reconciliations to Government Finance Statistics .....	82
Note 25:	Financial instruments – financial risk management objectives and policies.....	84
Note 26:	Glossary of technical terms .....	86
Note 27:	Government purpose classification .....	95
Note 28:	Controlled entities.....	97

## **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 2009-10 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<sup>(a)</sup>**

	<i>(per cent change)</i>			
	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Real gross state product	1.50	2.50	3.00	3.00
Employment	0.25	1.25	1.75	1.75
Wage price index <sup>(b)</sup>	3.00	3.25	3.50	3.50
Consumer price index	2.00	2.25	2.50	2.50
Population <sup>(c)</sup>	1.90	1.80	1.70	1.60

*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) Statement of compliance**

This budget update for the Victorian general government (GG) sector comprises estimated financial statements for the 2009-10 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 applicable Australian Accounting Standards (AAS) and interpretations.

In particular they are presented in a manner consistent with the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. However, the prospective nature of the estimated financial statements means that some 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* and AASB 1049 as stated above.

The Government Financial Statistics (GFS) information included in this report is based on the Australian Bureau of Statistics (ABS) GFS Manual. The consolidated entity has, where applicable, applied those AAS paragraphs applicable to not-for-profit entities.

The information presented in the estimated financial statements takes into account all policy decisions taken by the Victorian Government, as well as Commonwealth Government funding revisions and circumstances that may have a material effect on the statements.

## **(C) Basis of accounting, preparation 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 GG 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 GG 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 GG 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 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) Changes in accounting policy**

#### ***Land under roads***

A new pronouncement AASB 1051 *Land Under Roads* provides the option to recognise or not recognise land under roads acquired prior to 1 July 2008. Any land under roads acquired subsequent to that date must initially be recognised at cost of acquisition and may be re-measured at fair value.

Up until and including the *2009-10 Budget*, the State continued not to recognise land under roads acquired prior to 1 July 2008. Since then, and as reported for the first time in the recently published *2008-09 Financial Report for the State of Victoria*, the State has elected to recognise land under roads existing prior to 1 July 2008. The methodology applied is based on discounted site values for relevant municipal areas applied to land area under the arterial road network, including related reservations. In the case of land acquired for roads after 1 July 2008, the State has elected to measure the land at fair value subsequent to acquisition.

#### ***Valuation of water, rail and port infrastructure assets***

In the 2009-10 estimated financial statements and notes, (2009-10 Budget Paper No. 4, Chapter 1 *Statement of Finances*) certain infrastructure assets of water, rail and ports within the public non-financial sector (PNFC) were recorded on the basis of historical cost.

However, prospectively from the *2008-09 Financial Report for the State of Victoria*, these assets are now measured at fair value, where such fair value can be reliably measured, consistent with the requirements of AASB 1049.

## **(G) New accounting standards and interpretations**

### ***Borrowing costs***

In April 2009 AASB 2009-1 *Amendments to Australian Accounting Standards – Borrowing Costs of Not-for-profit Public Sector Entities [AASB 1, AASB 111 and AASB 123]* was issued to amend AASB 123 *Borrowing Costs*, by reintroducing the option for not-for-profit entities to expense borrowing costs. This was based on indications that the International Public Sector Accounting Standards Board (IPSASB) proposes to retain the expense option for not-for-profit entities. The State will continue with its existing policy of expensing borrowings costs in the period in which they are incurred, while AASB continues to monitor any further IPSASB developments related to borrowing.

## **(H) Prospective accounting changes**

### ***Service concessions***

In December 2007, the Australian Accounting Standards Board (AASB) decided that:

- the requirements of Interpretation 12 *Service Concession Arrangements* (which, for operators, sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements) are not obligatory for public sector grantors; however
- 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 AASB did not decide on a preferred accounting policy for grantors, because the IPSASB currently has a project assessing the accounting for service concessions from an international public sector perspective. The IPSASB intends to issue an Exposure Draft in December 2009 and a new IPSASB standard is expected during 2010. An Australian public sector standard is therefore unlikely before 2010-11.

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



## ***Revenue from non-exchange transactions***

In June 2009, the AASB issued Exposure Draft (ED) 180 *Revenue from Non-Exchange Transactions (Taxes and transfers)* which addresses several issues related to recognition and initial measurement requirements of income from non-exchange transactions for not-for-profit entities in the private and public sectors. The definition of non-exchange transactions includes taxes and transfers (whether cash or non-cash, including grants, parliamentary appropriations, debt forgiveness, fines, bequests, gifts, donations, and goods-in-kind and services-in-kind).

Among other things, the proposal addresses the timing of income/liability recognition from contributions of assets under non-exchange transactions. Currently, AASB 1004 *Contributions* requires income to be recognised when the entity controls such assets, and any associated conditions that cannot be met would result in a liability equal to that part of the asset to be returned or repaid.

In contrast under ED 180, income recognition is delayed until any conditions are satisfied. Conditions would give rise to a present obligation and result in initial recognition of a liability, with income recognised only to the extent (if any) that the asset recognised exceeds the liability. However a stipulation that the transferred assets should be used over a stated period (such as the next financial year) is not a condition as defined. Such time requirements would represent only a restriction on transferred assets and not result in the deferral of income recognition.

Comments on the ED are due to the AASB in November 2009 and it is not known when a new standard will be issued or what form it will take. The impacts that may occur to accounting by the State as a result of the resultant possible changes are unknown.

### ***(I) 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.

### ***(J) 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)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Taxes on employers' payroll and labour force</b>	<b>4 083.3</b>	<b>4 074.2</b>	<b>4 358.8</b>	<b>4 616.3</b>	<b>4 895.8</b>
<b>Taxes on property</b>					
<b>Taxes on immovable property</b>					
Land tax	1 217.9	1 218.7	1 168.7	1 140.0	1 228.8
Congestion levy	43.1	44.9	45.9	47.0	48.1
Metropolitan improvement levy	114.2	121.6	125.4	129.8	134.3
Property owner contributions to fire brigades	41.6	42.5	43.2	44.7	46.1
<b>Total taxes on immovable property</b>	<b>1 416.8</b>	<b>1 427.6</b>	<b>1 383.2</b>	<b>1 361.4</b>	<b>1 457.4</b>
<b>Financial and capital transactions</b>					
Land transfer duty	3 194.7	3 203.7	3 446.4	3 451.7	3 757.9
Growth areas infrastructure contribution	84.7	84.7	51.3	46.8	46.8
Other property duties	8.6	8.6	8.6	8.6	8.6
Financial accommodation levy	54.2	54.9	79.6	93.3	104.1
<b>Total financial and capital transactions</b>	<b>3 342.2</b>	<b>3 351.9</b>	<b>3 585.9</b>	<b>3 600.3</b>	<b>3 917.4</b>
<b>Total taxes on property</b>	<b>4 759.0</b>	<b>4 779.5</b>	<b>4 969.1</b>	<b>4 961.8</b>	<b>5 374.8</b>
<b>Taxes on the provision of goods and services</b>					
<b>Gambling taxes<sup>(a)</sup></b>	<b>1 641.8</b>	<b>1 683.6</b>	<b>1 744.2</b>	<b>1 814.7</b>	<b>1 880.4</b>
<b>Levies on statutory corporations</b>	<b>73.7</b>	<b>73.7</b>	<b>73.7</b>	<b>73.7</b>	<b>..</b>
<b>Taxes on insurance</b>	<b>1 275.9</b>	<b>1 375.1</b>	<b>1 460.3</b>	<b>1 538.3</b>	<b>1 619.3</b>
<b>Total taxes on the provision of goods and services</b>	<b>2 991.4</b>	<b>3 132.4</b>	<b>3 278.3</b>	<b>3 426.7</b>	<b>3 499.7</b>
<b>Taxes on the use of goods and performance of activities</b>					
<b>Motor vehicle taxes</b>					
Vehicle registration fees	864.5	864.6	910.1	952.0	996.4
Duty on vehicle registrations and transfers	483.9	538.7	541.2	551.1	573.6
<b>Total motor vehicle taxes</b>	<b>1 348.4</b>	<b>1 403.2</b>	<b>1 451.3</b>	<b>1 503.1</b>	<b>1 569.9</b>
<b>Franchise taxes</b>	<b>12.1</b>	<b>26.3</b>	<b>29.2</b>	<b>29.2</b>	<b>29.2</b>
<b>Other</b>	<b>79.6</b>	<b>79.6</b>	<b>76.1</b>	<b>74.6</b>	<b>75.4</b>
<b>Total taxes on the use of goods and performance of activities</b>	<b>1 440.1</b>	<b>1 509.1</b>	<b>1 556.6</b>	<b>1 606.9</b>	<b>1 674.4</b>
<b>Total taxation</b>	<b>13 273.7</b>	<b>13 495.3</b>	<b>14 162.7</b>	<b>14 611.7</b>	<b>15 444.6</b>

Note:

- (a) *Gambling taxes aggregated reflecting the commercial sensitivity of forecasts due to the gambling industry re-licensing process currently underway.*

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

(\$ million)

	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
Dividends	255.3	201.5	361.3	485.3	515.1
Income tax equivalent revenue	117.9	139.7	147.1	135.7	134.8
Local government rate equivalent revenue	6.2	4.9	5.1	5.1	5.3
<b>Total dividends and income tax equivalent and rate equivalent revenue</b>	<b>379.4</b>	<b>346.1</b>	<b>513.5</b>	<b>626.2</b>	<b>655.3</b>

**Note 4: Sales of goods and services**

(\$ million)

	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
Motor vehicle regulatory fees	109.5	107.4	127.6	148.0	148.0
Other regulatory fees	295.5	295.5	302.0	299.9	297.7
Sale of goods	1.9	131.6	81.7	71.7	81.7
Provision of services	3 475.6	3 269.0	3 541.0	3 708.6	3 801.4
Rental	44.7	44.4	44.5	45.2	45.5
Refunds and reimbursements	52.4	52.4	81.5	55.7	55.7
Inter-sector capital asset charge	1 064.5	1 066.1	1 177.4	1 280.1	1 359.0
<b>Total sales of goods and services</b>	<b>5 044.1</b>	<b>4 966.4</b>	<b>5 355.8</b>	<b>5 609.2</b>	<b>5 789.0</b>

**Note 5: Grants**

(\$ million)

	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
General purpose grants	9 415.1	9 644.4	10 372.8	11 011.8	11 592.9
Specific purpose grants for on-passing	2 872.6	2 765.9	2 759.7	2 485.5	2 485.5
Other specific purpose grants	9 064.7	9 641.4	8 198.0	7 910.4	8 531.7
Total	21 352.4	22 051.7	21 330.5	21 407.6	22 610.1
Other contributions and grants	201.7	129.4	109.0	90.1	90.1
<b>Total Grants<sup>(a)</sup></b>	<b>21 554.1</b>	<b>22 181.1</b>	<b>21 439.5</b>	<b>21 497.7</b>	<b>22 700.2</b>

Note:

(a) Disclosure of grants amended for 2009-10 due to revised Commonwealth/State administrative arrangements that no longer make the distinction between capital and operating possible.

## Note 6: Other current revenue

	(\$ million)				
	2009-10	2009-10	2010-11	2011-12	2012-13
	Budget	Revised	Estimate	Estimate	Estimate
Fair value of assets received free of charge or for nominal consideration	56.7	86.8	81.0	30.7	0.8
Fines	506.5	506.3	581.5	584.1	586.8
Royalties	48.9	48.9	47.4	47.8	48.8
Donations and gifts	267.4	308.9	226.2	245.9	239.7
Other non-property rental	15.3	15.3	15.4	15.5	15.5
Other miscellaneous income	807.9	775.8	688.3	688.8	690.0
<b>Total other current revenue</b>	<b>1 702.9</b>	<b>1 742.0</b>	<b>1 639.6</b>	<b>1 612.8</b>	<b>1 581.7</b>

## Note 7: Superannuation

The liability for employee superannuation benefits in the GG 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 unfunded superannuation liabilities is the responsibility of the State and is recognised accordingly.

### (a) Superannuation expense recognised in the operating statement

	(\$ million)				
	2009-10	2009-10	2010-11	2011-12	2012-13
	Budget	Revised	Estimate	Estimate	Estimate
<b>Defined benefit plans</b>					
Interest cost	1 649.1	1 889.2	1 910.1	1 933.4	1 949.0
Expected return on plan assets (net of expenses)	( 989.9)	( 1 022.5)	( 1 108.9)	( 1 112.9)	( 1 110.8)
<b>Superannuation interest expense <sup>(a)</sup></b>	<b>659.2</b>	<b>866.7</b>	<b>801.2</b>	<b>820.5</b>	<b>838.2</b>
Current service cost	705.6	617.5	592.7	584.6	582.6
Amortisation of past service cost <sup>(b)</sup>	( 10.2)	( 10.2)	..	..	..
Employer contributions to defined contribution plans	854.0	855.2	906.5	950.5	1 044.5
Other (including pensions)	49.9	49.9	52.1	54.3	54.3
<b>Other superannuation</b>	<b>1 599.3</b>	<b>1 512.4</b>	<b>1 551.3</b>	<b>1 589.4</b>	<b>1 681.5</b>
<b>Total superannuation expense from transactions</b>	<b>2 258.4</b>	<b>2 379.1</b>	<b>2 352.5</b>	<b>2 410.0</b>	<b>2 519.7</b>
<b>Superannuation expense from other economic flows</b>					
Net actuarial (gains)/losses of superannuation defined benefit plans	..	( 330.7)	..	..	..
<b>Total superannuation expense recognised in operating statement</b>	<b>2 258.4</b>	<b>2 048.4</b>	<b>2 352.5</b>	<b>2 410.0</b>	<b>2 519.7</b>

Notes:

- (a) Superannuation interest expense shown on the operating statement is the interest cost less the expected return on plan assets.
- (b) Past service cost arises due to a change in benefits payable and must be amortised over the period until the benefits become vested.

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

	(\$ million)				
	2009-10 Budget <sup>(a)</sup>	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Opening balance of defined benefit obligation</b>	<b>34 516.5</b>	<b>34 516.5</b>	<b>35 686.3</b>	<b>36 162.7</b>	<b>36 494.3</b>
Current service cost	705.6	617.5	592.7	584.6	582.6
Interest cost	1 649.1	1 889.2	1 910.1	1 933.4	1 949.0
Contributions by plan participants	203.4	214.6	200.3	188.2	176.6
Actuarial (gains)/losses	..	723.4	..	..	..
Benefits paid	(2 139.4)	(2 274.9)	(2 226.7)	(2 374.5)	(2 500.9)
<b>Closing balance of defined benefit obligation</b>	<b>34 935.2</b>	<b>35 686.3</b>	<b>36 162.7</b>	<b>36 494.3</b>	<b>36 701.7</b>

Note:

(a) 2009-10 Budget is based on actual opening balances at 1 July 2009 plus 2009-10 budgeted movement.

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

	(\$ million)				
	2009-10 Budget <sup>(a)</sup>	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Opening balance of plan assets</b>	<b>13 854.4</b>	<b>13 854.4</b>	<b>14 963.3</b>	<b>15 114.1</b>	<b>15 089.7</b>
Expected return on plan assets	989.9	1 022.5	1 108.9	1 112.9	1 110.8
Actuarial gains/(losses)	..	1 054.1	..	..	..
Employer contributions	1 067.8	1 092.6	1 068.2	1 049.1	1 214.0
Contributions by plan participants	203.4	214.6	200.3	188.2	176.6
Benefits paid (including tax paid)	(2 139.4)	(2 274.9)	(2 226.7)	(2 374.5)	(2 500.9)
<b>Closing balance of plan assets</b>	<b>13 976.2</b>	<b>14 963.3</b>	<b>15 114.1</b>	<b>15 089.7</b>	<b>15 090.2</b>

Note:

(a) 2009-10 Budget is based on actual opening balances at 1 July 2009 plus 2009-10 budgeted movement.

**(d) Reconciliation of the superannuation liabilities**

(\$ million)

	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>ESSS (including SSF)</b>					
Defined benefit obligation	30 963.1	31 628.8	31 939.8	32 173.8	32 336.0
Tax liability <sup>(a)</sup>	2 144.5	2 190.6	2 327.9	2 401.2	2 424.5
Plan assets	(12 870.7)	(13 779.8)	(13 908.8)	(13 876.6)	(13 872.7)
<b>Net liability/(asset)</b>	<b>20 236.9</b>	<b>20 039.6</b>	<b>20 358.9</b>	<b>20 698.5</b>	<b>20 887.8</b>
<b>Other funds <sup>(b)</sup></b>					
Defined benefit obligation	1 805.0	1 843.8	1 875.2	1 902.7	1 927.6
Tax liability <sup>(a)</sup>	22.6	23.1	19.7	16.6	13.7
Plan assets	(1 105.4)	(1 183.5)	(1 205.2)	(1 213.2)	(1 217.5)
<b>Net liability/(asset)</b>	<b>722.2</b>	<b>683.4</b>	<b>689.7</b>	<b>706.2</b>	<b>723.8</b>
<b>Total superannuation</b>					
Defined benefit obligation	32 768.1	33 472.6	33 815.1	34 076.5	34 263.6
Tax liability	2 167.1	2 213.7	2 347.6	2 417.9	2 438.2
Plan assets	(13 976.2)	(14 963.3)	(15 114.1)	(15 089.7)	(15 090.2)
<b>Superannuation liability</b>	<b>20 959.0</b>	<b>20 722.9</b>	<b>21 048.6</b>	<b>21 404.7</b>	<b>21 611.6</b>
<b>Represented by:</b>					
Current liability	544.0	544.0	560.0	750.0	1 173.3
Non-current liability	20 415.0	20 178.9	20 488.6	20 654.7	20 438.3

Notes:

- (a) Tax liability represents the present value of future tax payments on investment income generated by superannuation assets plus the present value of future tax payments on expected future employer contributions.
- (b) 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 and amortisation

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Depreciation</b>					
Buildings <sup>(a)</sup>	517.3	506.6	591.8	687.4	787.6
Plant, equipment and infrastructure systems	563.0	560.1	594.7	607.0	614.8
Road networks	406.2	406.2	495.3	522.5	578.5
Other assets	12.8	13.0	13.2	19.6	19.5
<b>Total depreciation</b>	<b>1 499.2</b>	<b>1 485.9</b>	<b>1 695.0</b>	<b>1 836.6</b>	<b>2 000.4</b>
<b>Amortisation</b>					
Leased plant and equipment	44.7	44.7	39.8	35.3	35.4
Leasehold buildings	60.9	62.7	63.8	82.8	82.8
Intangible produced assets <sup>(b)</sup>	41.6	49.0	35.6	43.8	41.0
Total amortisation	147.2	156.4	139.2	161.9	159.1
<b>Total depreciation</b>	<b>1 646.4</b>	<b>1 642.3</b>	<b>1 834.2</b>	<b>1 998.4</b>	<b>2 159.5</b>

Notes:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2009-10 to 2012-13.

(b) Amortisation of intangible non-produced assets is included under other economic flows.

## Note 9: Interest expense

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
Interest on long-term interest-bearing liabilities	543.3	587.2	772.6	962.6	1 010.8
Interest on short-term interest-bearing liabilities	35.9	32.7	32.7	32.7	32.7
Finance charges on finance leases	96.6	96.6	93.7	298.8	567.2
Discount interest on payables	38.0	63.3	61.2	57.9	52.9
<b>Total interest expense</b>	<b>713.8</b>	<b>779.7</b>	<b>960.2</b>	<b>1 352.1</b>	<b>1 663.7</b>

## Note 10: Grants and other transfers

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Current grants expense</b>					
Commonwealth Government	77.2	85.0	81.0	73.8	74.0
Local government on-passing	652.0	540.4	625.5	607.5	600.6
Private sector and not for profit on-passing	3 403.8	3 451.3	3 326.5	3 399.6	3 350.7
Other private sector and not for profit	463.4	743.7	318.5	301.9	328.7
Grants within the Victorian Government	2 907.7	2 933.6	2 411.6	2 378.3	2 417.2
Grants to other state governments	14.1	14.2	13.8	14.0	14.0
<b>Total current grants and other transfers</b>	<b>7 518.3</b>	<b>7 768.2</b>	<b>6 776.9</b>	<b>6 775.1</b>	<b>6 785.2</b>
<b>Capital grants expense</b>					
Commonwealth Government	..	..	..	..	..
Local government on-passing	6.8	39.8	39.5	40.4	41.3
Private sector and not for profit on-passing	776.2	774.7	489.1	85.9	83.7
Other private sector and not for profit	136.3	226.4	150.8	143.6	137.0
Grants within the Victorian Government	4.8	..	..	..	12.3
<b>Total capital grants and other transfers</b>	<b>924.0</b>	<b>1 040.8</b>	<b>679.4</b>	<b>269.9</b>	<b>274.4</b>
<b>Total grants and other transfers</b>	<b>8 442.3</b>	<b>8 809.0</b>	<b>7 456.3</b>	<b>7 044.9</b>	<b>7 059.6</b>

## Note 11: Total expenses by government purpose classification

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
General public services	737.0	496.1	1 112.6	1 400.9	1 749.3
Public order and safety	4 474.7	4 627.4	4 570.5	4 617.4	4 744.0
Education	11 647.9	12 000.3	11 382.4	11 217.1	11 364.4
Health	11 113.9	11 155.5	11 300.9	11 554.7	11 807.0
Social security and welfare	3 184.9	3 204.9	3 265.2	3 330.0	3 397.8
Housing and community amenities	3 419.1	3 443.5	3 226.4	3 386.5	3 514.5
Recreation and culture	787.3	806.8	748.0	741.5	730.9
Fuel and energy	20.3	20.1	21.8	22.3	22.8
Agriculture, forestry, fishing, and hunting	498.4	503.4	402.4	423.8	428.5
Mining, manufacturing, and construction	19.2	19.4	16.2	17.0	17.2
Transport and communications	4 309.5	4 357.0	4 358.2	4 549.7	4 630.4
Other economic affairs	571.9	612.0	469.2	444.6	395.1
Other purposes	1 374.6	1 623.2	1 728.3	2 141.2	2 476.4
<b>Total expenses by government purpose classification<sup>(a)</sup></b>	<b>42 158.8</b>	<b>42 869.5</b>	<b>42 602.1</b>	<b>43 846.6</b>	<b>45 278.3</b>

Note:

(a) Classifications have been determined using ratios based on historical data in the 2008-09 Financial Report for the State of Victoria. Therefore the allocation for published figures in the year 2009-10 is different from the 2009-10 Statement of Finances, Budget Paper No. 4.



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

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
Net gain/(loss) from revaluation of biological assets	8.4	..	..	..	..
Net (increase)/decrease in provision for doubtful receivables	4.1	( 61.3)	( 16.9)	( 17.3)	( 17.7)
Amortisation of intangible non-produced assets	( 5.1)	( 5.1)	( 5.3)	( 5.4)	( 5.5)
Net (increase)/decrease in bad debts	( 64.4)	( 91.7)	( 64.4)	( 64.4)	( 64.4)
Other gains/(losses)	0.1	0.8	0.6	0.1	0.5
<b>Total other gains/(losses) from other economic flows</b>	<b>( 56.9)</b>	<b>( 157.4)</b>	<b>( 86.0)</b>	<b>( 87.1)</b>	<b>( 87.1)</b>

## Note 13: Receivables

	(\$ million)				
	2010 Budget	2010 Revised	2011 Estimate	2012 Estimate	2013 Estimate
<b>Contractual</b>					
Sales of goods and services	688.4	640.0	620.7	601.4	580.3
Accrued investment income	80.5	68.5	59.5	47.3	48.3
Other receivables	439.6	471.5	504.1	501.8	498.9
<i>Provision for doubtful receivables</i>	<i>( 54.5)</i>	<i>( 57.6)</i>	<i>( 56.0)</i>	<i>( 55.8)</i>	<i>( 54.0)</i>
<b>Total contractual</b>	<b>1 154.0</b>	<b>1 122.3</b>	<b>1 128.4</b>	<b>1 094.8</b>	<b>1 073.5</b>
<b>Statutory</b>					
Taxes receivables	925.5	715.5	705.7	695.9	686.1
Fines and regulatory fees	789.5	819.4	879.5	939.9	1 000.7
GST input tax credits recoverable	262.5	260.2	260.9	261.4	262.0
<i>Provision for doubtful receivables</i>	<i>( 329.5)</i>	<i>( 396.9)</i>	<i>( 413.5)</i>	<i>( 430.5)</i>	<i>( 447.9)</i>
<b>Total statutory</b>	<b>1 648.0</b>	<b>1 398.2</b>	<b>1 432.5</b>	<b>1 466.7</b>	<b>1 501.0</b>
<b>Total receivables</b>	<b>2 802.0</b>	<b>2 520.5</b>	<b>2 560.9</b>	<b>2 561.4</b>	<b>2 574.5</b>

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

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
Balance of investment in PNFC and PFC sectors at beginning of period	60 634.8	60 634.8	64 043.2	66 512.2	67 948.8
Net contributions to other sectors by owner	1 964.7	2 016.9	1 770.6	1 365.9	1 204.3
Revaluation gain/(loss) for period	244.5	1 391.6	698.3	70.8	( 164.5)
<b>Balance of investment in PNFC and PFC sectors at end of period</b>	<b>62 844.0</b>	<b>64 043.2</b>	<b>66 512.2</b>	<b>67 948.8</b>	<b>68 988.5</b>

## Note 15: Net acquisition of non-financial assets

	(\$ million)				
	2009-10	2009-10	2010-11	2011-12	2012-13
	Budget	Revised	Estimate	Estimate	Estimate
Purchases of non-financial assets	5 228.6	5 136.0	4 737.1	3 485.4	3 303.7
Less: Sales of non-financial assets	( 222.8)	( 262.9)	( 250.4)	( 264.7)	( 253.0)
Less: Depreciation	(1 646.4)	(1 642.3)	(1 834.2)	(1 998.4)	(2 159.5)
Plus: Change in inventories	0.1	2.2	..	( 0.1)	( 0.2)
Plus: Other movements in non-financial assets	130.9	160.9	201.3	870.4	0.2
<b>Total net acquisition of non-financial assets</b>	<b>3 490.4</b>	<b>3 393.9</b>	<b>2 853.7</b>	<b>2 092.5</b>	<b>891.2</b>

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

### (a) Total land, buildings, infrastructure, plant and equipment

	(\$ million)				
	2010	2010	2011	2012	2013
	Budget	Revised	Estimate	Estimate	Estimate
Buildings (written down value)	20 933.0	19 878.2	23 018.2	25 125.3	27 609.9
Land and national parks	39 717.4	40 311.9	41 390.1	44 775.8	46 506.5
Infrastructure systems (written down value)	1 212.7	1 178.5	1 304.3	1 317.5	1 302.7
Plant, equipment and vehicles (written down value)	2 565.9	2 537.7	2 485.4	2 231.5	1 937.7
Roads (written down value)	18 658.5	19 411.5	20 101.4	22 205.8	22 120.9
Earthworks	6 680.8	6 057.2	6 057.2	6 057.2	6 057.2
Cultural assets (written down value)	4 384.2	4 385.5	4 389.3	4 387.8	4 386.5
<b>Total land, buildings, infrastructure, plant and equipment</b>	<b>94 152.4</b>	<b>93 760.5</b>	<b>98 745.9</b>	<b>106 100.9</b>	<b>109 921.3</b>

### (b) Land and buildings

	(\$ million)				
	2010	2010	2011	2012	2013
	Budget	Revised	Estimate	Estimate	Estimate
Buildings	23 633.5	22 595.7	26 343.0	29 171.4	32 470.3
Accumulated depreciation	(2 700.5)	(2 717.6)	(3 324.8)	(4 046.2)	(4 860.4)
<b>Buildings (written down value)</b>	<b>20 933.0</b>	<b>19 878.2</b>	<b>23 018.2</b>	<b>25 125.3</b>	<b>27 609.9</b>
Land	37 576.8	38 171.8	39 249.9	42 635.6	44 366.3
National Parks and other 'land only' holdings	2 140.5	2 140.2	2 140.2	2 140.2	2 140.2
<b>Land and National Parks</b>	<b>39 717.4</b>	<b>40 311.9</b>	<b>41 390.1</b>	<b>44 775.8</b>	<b>46 506.5</b>
<b>Total land and buildings</b>	<b>60 650.3</b>	<b>60 190.1</b>	<b>64 408.3</b>	<b>69 901.1</b>	<b>74 116.4</b>

(c) Plant, equipment and vehicles, and infrastructure systems

(\$ million)

	2010 Budget	2010 Revised	2011 Estimate	2012 Estimate	2013 Estimate
Infrastructure systems	1 555.5	1 513.8	1 662.7	1 699.0	1 707.7
<i>Accumulated depreciation</i>	( 342.8)	( 335.3)	( 358.3)	( 381.5)	( 405.0)
<b>Infrastructure systems (written down value)</b>	<b>1 212.7</b>	<b>1 178.5</b>	<b>1 304.3</b>	<b>1 317.5</b>	<b>1 302.7</b>
Plant, equipment and vehicles	5 467.3	5 413.0	5 748.8	5 888.7	5 963.5
<i>Accumulated depreciation</i>	(2 981.6)	(2 956.6)	(3 313.7)	(3 681.1)	(4 048.0)
Leased plant, equipment and vehicles	197.8	203.5	209.5	215.8	246.7
<i>Accumulated depreciation</i>	( 117.6)	( 122.2)	( 159.2)	( 191.9)	( 224.6)
<b>Plant, equipment and vehicles (written down value)</b>	<b>2 565.9</b>	<b>2 537.7</b>	<b>2 485.4</b>	<b>2 231.5</b>	<b>1 937.7</b>
<b>Total plant, equipment and vehicles, and infrastructure systems</b>	<b>3 778.6</b>	<b>3 716.2</b>	<b>3 789.7</b>	<b>3 549.0</b>	<b>3 240.4</b>

(d) Road networks and earthworks

(\$ million)

	2010 Budget	2010 Revised	2011 Estimate	2012 Estimate	2013 Estimate
Roads	23 241.6	23 994.6	24 841.1	27 129.4	27 284.3
<i>Accumulated depreciation</i>	(9 038.8)	(9 038.8)	(9 436.4)	(9 858.5)	(10 336.7)
Road infrastructure	7 341.0	7 341.0	7 679.7	8 018.4	8 357.1
<i>Accumulated depreciation</i>	(2 885.3)	(2 885.3)	(2 983.0)	(3 083.4)	(3 183.8)
<b>Roads (written down value)</b>	<b>18 658.5</b>	<b>19 411.5</b>	<b>20 101.4</b>	<b>22 205.8</b>	<b>22 120.9</b>
<b>Earthworks</b>	<b>6 680.8</b>	<b>6 057.2</b>	<b>6 057.2</b>	<b>6 057.2</b>	<b>6 057.2</b>
<b>Total road networks and earthworks</b>	<b>25 339.2</b>	<b>25 468.7</b>	<b>26 158.5</b>	<b>28 263.0</b>	<b>28 178.0</b>

(e) Cultural assets

(\$ million)

	2010 Budget	2010 Revised	2011 Estimate	2012 Estimate	2013 Estimate
Cultural assets	4 502.4	4 505.5	4 522.7	4 542.1	4 562.5
<i>Accumulated depreciation</i>	( 118.2)	( 120.1)	( 133.4)	( 154.3)	( 176.0)
<b>Total cultural assets</b>	<b>4 384.2</b>	<b>4 385.5</b>	<b>4 389.3</b>	<b>4 387.8</b>	<b>4 386.5</b>

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

	(\$ million)				
	2009-10	2009-10	2010-11	2011-12	2012-13
	Budget	Revised	Estimate	Estimate	Estimate
Carrying amount at the start of the year <sup>(a)</sup>	87 409.7	87 409.7	93 760.5	98 745.9	106 100.9
Additions <sup>(b)</sup>	5 348.7	5 280.9	4 896.3	8 537.1	3 263.9
Disposals at written down value	( 170.8)	( 208.9)	( 139.2)	(4 316.7)	( 108.5)
Revaluations	3 168.2	2 957.1	2 014.6	5 049.7	2 727.1
Assets reclassified	0.3	( 86.1)	11.2	38.4	55.4
Depreciation expense	(1 603.7)	(1 592.2)	(1 797.5)	(1 953.6)	(2 117.5)
<b>Carrying amount at the end of the year</b>	<b>94 152.4</b>	<b>93 760.5</b>	<b>98 745.9</b>	<b>106 100.9</b>	<b>109 921.3</b>

Notes:

- (a) Property, plant and equipment comprises land and buildings, infrastructure systems, plant, equipment, vehicles, road networks and cultural assets. Excludes movements in intangible, investment properties and other non-financial assets.
- (b) Includes assets acquired under finance lease arrangements.

**Note 18: Other non-financial assets**

	(\$ million)				
	2010	2010	2011	2012	2013
	Budget	Revised	Estimate	Estimate	Estimate
Intangibles produced assets	520.0	523.1	553.0	565.5	612.3
Accumulated depreciation	( 269.1)	( 272.4)	( 300.8)	( 337.4)	( 386.1)
Intangibles non-produced assets	68.7	68.7	68.7	68.7	68.7
Accumulated depreciation	( 25.5)	( 25.5)	( 30.8)	( 36.2)	( 41.7)
<b>Total intangibles</b>	<b>294.1</b>	<b>293.9</b>	<b>290.1</b>	<b>260.6</b>	<b>253.2</b>
Investment properties	21.1	21.1	21.1	21.1	21.1
Biological assets <sup>(a)</sup>	35.4	31.4	36.2	41.3	46.6
Other assets	315.0	317.6	320.3	322.7	324.8
<b>Total other non-financial assets</b>	<b>665.5</b>	<b>664.0</b>	<b>667.6</b>	<b>645.7</b>	<b>645.7</b>

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: Assets classified by government purpose classification

### (a) Purchases of non-financial assets <sup>(a)</sup>

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-2011 Estimate	2011-12 Estimate	2012-2013 Estimate
General public services	240.3	202.0	312.6	459.7	785.9
Public order and safety	380.9	369.9	375.0	340.1	225.8
Education	2 026.0	2 334.3	1 483.3	260.4	141.2
Health	560.3	559.9	436.6	343.6	512.6
Social security and welfare	208.6	236.7	194.4	101.2	92.3
Housing and community amenities	537.3	580.8	464.9	304.7	239.8
Recreation and culture	121.9	114.1	210.6	144.4	44.9
Fuel and energy	0.6	0.8	0.6	0.6	0.6
Agriculture, forestry, fishing, and hunting	103.2	104.9	38.5	59.9	21.4
Mining, manufacturing, and construction	6.3	6.4	2.3	3.6	1.3
Transport and communications	1 336.6	1 446.9	1 215.1	946.8	521.7
Other economic affairs	47.3	36.5	9.7	3.9	2.6
Other purposes	3.2	3.0	3.0	2.8	2.6
Not allocated by purpose <sup>(b)</sup>	( 343.8)	( 860.0)	( 9.6)	513.6	710.9
<b>Total purchases of non-financial assets</b>	<b>5 228.6</b>	<b>5 136.0</b>	<b>4 737.1</b>	<b>3 485.4</b>	<b>3 303.7</b>

Notes:

- (a) Classifications have been determined using ratios based on historical data in the 2008-09 Financial Report for the State of Victoria. Therefore the allocation for published figures in the year 2009-10 is different from the 2009-10 Statement of Finances, Budget Paper No. 4.
- (b) Estimated amount available to be allocated to specific departments and projects. This includes departmental underspending, which may be subject to carryover.

### (b) Total assets <sup>(a)</sup>

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-2011 Estimate	2011-12 Estimate	2012-2013 Estimate
General public services	742.1	728.2	1 202.4	1 749.0	2 485.1
Public order and safety	5 782.6	5 766.5	6 116.4	6 265.4	6 287.3
Education	15 743.8	16 046.5	17 398.3	17 292.1	17 081.0
Health	9 615.0	9 631.5	10 456.0	11 230.5	11 329.2
Social security and welfare	611.0	617.1	675.1	682.5	669.2
Housing and community amenities	8 796.1	8 779.0	9 022.3	9 195.5	9 344.3
Recreation and culture	6 753.2	6 749.1	6 783.5	6 792.5	6 769.0
Fuel and energy	1.9	2.0	2.0	2.0	2.0
Agriculture, forestry, fishing, and hunting	468.6	470.4	486.6	525.1	522.5
Mining, manufacturing, and construction	..	..	..	..	..
Transport and communications	45 836.9	45 963.5	46 706.9	47 135.2	47 125.1
Other economic affairs	279.0	268.5	271.1	267.5	263.4
Other purposes	5.3	5.3	7.5	9.5	11.2
Not allocated by purpose <sup>(b)</sup>	71 705.3	71 522.3	75 093.1	86 415.9	90 969.3
<b>Total assets</b>	<b>166 341.0</b>	<b>166 550.0</b>	<b>174 221.4</b>	<b>187 562.7</b>	<b>192 858.5</b>

Notes:

- (a) Classifications have been determined using ratios based on historical data in the Financial Report for the State of Victoria 2008-09. Therefore the allocation for published figures in the year 2009-10 is different from the 2009-10 Statement of Finances, Budget Paper No. 4.
- (b) Includes financial assets, which are not allocated by purpose.

## Note 20: Borrowings

	(\$ million)				
	2010	2010	2011	2012	2013
	Budget	Revised	Estimate	Estimate	Estimate
<b>Current borrowings</b>					
Domestic borrowings	629.1	628.9	627.1	625.3	623.4
Finance lease liabilities	60.2	61.8	62.8	47.5	70.9
Derivative financial instruments	7.4	7.4	7.4	7.4	7.4
<b>Total current borrowings</b>	<b>696.7</b>	<b>698.2</b>	<b>697.3</b>	<b>680.2</b>	<b>701.8</b>
<b>Non-current borrowings</b>					
Domestic borrowings	12 839.7	12 438.2	15 984.4	18 120.1	18 828.0
Finance lease liabilities	1 647.9	1 649.5	1 682.4	6 649.6	6 511.6
Derivative financial instruments	1.1	1.1	1.1	1.1	1.1
<b>Total non-current borrowings</b>	<b>14 488.7</b>	<b>14 088.9</b>	<b>17 667.9</b>	<b>24 770.9</b>	<b>25 340.7</b>
<b>Total borrowings</b>	<b>15 185.4</b>	<b>14 787.1</b>	<b>18 365.2</b>	<b>25 451.1</b>	<b>26 042.5</b>

## Note 21: Other employee benefits

	(\$ million)				
	2010	2010	2011	2012	2013
	Budget	Revised	Estimate	Estimate	Estimate
<b>Current</b>					
Accrued salaries and wages <sup>(a)</sup>	1 381.6	1 380.2	1 413.2	1 446.0	1 478.9
Long service leave	2 579.1	2 584.1	2 660.9	2 740.8	2 823.3
<b>Total current employee benefits</b>	<b>3 960.7</b>	<b>3 964.3</b>	<b>4 074.1</b>	<b>4 186.8</b>	<b>4 302.2</b>
<b>Non-current</b>					
Long service leave	505.7	469.8	545.7	589.3	633.1
<b>Total non-current employee benefits</b>	<b>505.7</b>	<b>469.8</b>	<b>545.7</b>	<b>589.3</b>	<b>633.1</b>
<b>Total employee benefits</b>	<b>4 466.3</b>	<b>4 434.1</b>	<b>4 619.8</b>	<b>4 776.1</b>	<b>4 935.3</b>

Note:

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

## Note 22: Cash flow information

### (a) Reconciliation of cash and cash equivalents

	(\$ million)				
	2010	2010	2011	2012	2013
	Budget	Revised	Estimate	Estimate	Estimate
Cash	931.5	689.5	459.6	704.4	1 350.6
Deposits at call	1 652.2	1 575.3	1 986.7	2 109.1	1 910.0
<b>Cash and cash equivalents</b>	<b>2 583.7</b>	<b>2 264.8</b>	<b>2 446.3</b>	<b>2 813.5</b>	<b>3 260.6</b>
Bank overdraft	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
<b>Balances as per cash flow statement</b>	<b>2 583.3</b>	<b>2 264.3</b>	<b>2 445.8</b>	<b>2 813.0</b>	<b>3 260.1</b>

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

(\$ million)

	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Net result</b>	242.8	505.0	953.7	773.5	1 820.5
<b>Non-cash movements</b>					
Depreciation	1 651.5	1 647.4	1 839.4	2 003.8	2 165.1
Revaluation of investments	( 14.5)	( 13.3)	( 0.5)	( 0.4)	( 1.4)
Assets (received)/provided free of charge	( 56.3)	( 86.3)	( 80.3)	( 30.3)	( 0.2)
Revaluation of assets	( 8.4)	..	..	..	..
Discount/premium on other financial assets/borrowings	7.2	7.2	7.7	7.4	7.4
<b>Movements included in investing and financing activities</b>					
Net revenues from sale of investments	( 1.6)	( 0.4)	( 0.5)	( 0.4)	( 1.4)
Net gain from disposal of property, plant and equipment	( 54.1)	( 56.1)	( 113.4)	( 121.0)	( 114.5)
<b>Movements in assets and liabilities</b>					
Increase/(decrease) in provision for doubtful debts	( 4.3)	66.2	15.0	16.8	15.6
Increase/(decrease) in payables	13.0	( 219.2)	( 178.9)	( 195.7)	( 207.8)
Increase/(decrease) in employee benefits	189.2	157.0	185.7	156.3	159.2
Increase/(decrease) in superannuation	286.7	50.7	325.7	356.1	206.9
Increase/(decrease) in other provisions	( 25.4)	( 18.0)	( 16.7)	( 14.1)	( 14.1)
(Increase)/decrease in receivables	87.7	281.2	29.4	( 47.4)	41.3
(Increase)/decrease in other non-financial assets	( 2.3)	( 10.6)	( 8.2)	( 8.0)	( 7.9)
<b>Net cash flows from operating activities</b>	<b>2 311.3</b>	<b>2 310.9</b>	<b>2 958.2</b>	<b>2 896.7</b>	<b>4 068.4</b>

**Note 23: Reserves**

(\$ million)

	2010 Budget	2010 Revised	2011 Estimate	2012 Estimate	2013 Estimate
Property plant and equipment revaluation reserve	32 944.8	32 733.7	34 748.3	39 797.9	42 525.0
Available-for-sale investments revaluation reserve	13.5	13.5	13.5	13.5	13.5
Revaluation reserve for investments in PFC and PNFC entities	37 889.3	39 036.4	39 734.7	39 805.5	39 641.0
Other reserves	774.6	774.4	773.7	772.7	772.2
<b>Total reserves</b>	<b>71 622.1</b>	<b>72 558.0</b>	<b>75 270.2</b>	<b>80 389.7</b>	<b>82 951.7</b>

## Note 24: Reconciliations to Government Finance Statistics

### (a) Reconciliation to GFS net operating balance<sup>(a)</sup>

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
Net result from transactions – net operating balance	229.5	261.9	925.4	738.8	1 790.2
Convergence differences	..	..	..	..	..
<b>GFS net operating balance</b>	<b>229.5</b>	<b>261.9</b>	<b>925.4</b>	<b>738.8</b>	<b>1 790.2</b>

Note:

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

### (b) Reconciliation to GFS total change in net worth<sup>(a)</sup>

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
Total change in net worth	3 669.5	4 787.5	3 677.1	5 931.4	4 437.9
Convergence differences:					
Contribution by minority interest	( 20.0)	( 20.0)	..	..	..
Doubtful receivables <sup>(b)</sup>	( 4.3)	66.2	15.0	16.8	15.6
Net gain on equity investments in other sector entities measured at proportional share of net assets/(liabilities) <sup>(c)</sup>	41.5	16.8	18.9	( 54.0)	98.3
Total convergence differences	17.2	63.0	33.9	( 37.1)	113.9
<b>GFS total change in net worth</b>	<b>3 686.8</b>	<b>4 850.5</b>	<b>3 711.0</b>	<b>5 894.3</b>	<b>4 551.7</b>

Notes:

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

(b) The convergence difference arises because GFS does not recognise doubtful receivables, whereas AASB 1049 recognises the cost of this provision in the operating statement classified 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 GFS net lending/(borrowing)<sup>(a)</sup>

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
Net lending/(borrowing)	(3 260.9)	(3 132.0)	(1 928.3)	(1 353.7)	899.0
Convergence differences	..	..	..	..	..
<b>GFS net lending/(borrowing)</b>	<b>(3 260.9)</b>	<b>(3 132.0)</b>	<b>(1 928.3)</b>	<b>(1 353.7)</b>	<b>899.0</b>

Note:

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



**(d) Reconciliation to GFS net worth<sup>(a)</sup>**

	(\$ million)				
	2010	2010	2011	2012	2013
	Budget	Revised	Estimate	Estimate	Estimate
Net worth	120 343.3	121 461.3	125 138.4	131 069.8	135 507.6
Convergence differences:					
Minority interest	( 59.5)	( 59.5)	( 59.5)	( 59.5)	( 59.5)
Accounts receivable – provision for doubtful debts <sup>(b)</sup>	384.0	454.5	469.5	486.3	501.9
Investments in other sector entities <sup>(c)</sup>					
Doubtful receivables of the PNFC sector	20.5	20.0	20.8	21.8	22.6
Doubtful receivables of the PFC sector	47.2	47.2	47.2	47.2	47.2
Future tax benefits of the PNFC sector	( 161.7)	( 156.6)	( 141.3)	( 128.4)	( 126.7)
Future tax benefits of the PFC sector	(1 867.5)	(1 867.5)	(1 867.5)	(1 867.5)	(1 867.5)
Deferred tax liability of the PNFC sector	3 167.8	3 138.6	3 141.2	3 073.5	3 169.2
Deferred tax liability of the PFC sector	2.0	2.0	2.0	2.0	2.0
Total adjustments for investments in other sector entities	1 208.3	1 183.6	1 202.5	1 148.5	1 246.8
Total convergence differences	1 532.8	1 578.6	1 612.4	1 575.3	1 689.2
<b>GFS net worth</b>	<b>121 876.0</b>	<b>123 039.8</b>	<b>126 750.8</b>	<b>132 645.1</b>	<b>137 196.9</b>

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 GFS 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) Derivation of GFS cash surplus/(deficit)<sup>(a)</sup>**

	(\$ million)				
	2009-10	2009-10	2010-11	2011-12	2012-13
	Budget	Revised	Estimate	Estimate	Estimate
<b>Cash surplus/(deficit)</b>	<b>(2 694.4)</b>	<b>(2 562.2)</b>	<b>(1 528.5)</b>	<b>( 324.0)</b>	<b>1 017.7</b>
Convergence differences:					
Less: Acquisitions under finance leases and similar arrangements	( 74.7)	( 74.7)	( 121.0)	(5 043.1)	..
Total convergence differences	( 74.7)	( 74.7)	( 121.0)	(5 043.1)	..
<b>GFS cash surplus/(deficit)</b>	<b>(2 769.1)</b>	<b>(2 636.9)</b>	<b>(1 649.5)</b>	<b>(5 367.1)</b>	<b>1 017.7</b>

Note:

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

## **Note 25: Financial instruments – financial risk management objectives and policies**

The *2008-09 Financial Report for the State of Victoria* (Note 32) contains a comprehensive disclosure of the State's (including the general government sector's) financial risk management objectives and policies. There has been no subsequent substantive change to these objectives and policies.

In relation to the general government sector, the following is a summary of how these risks are reviewed and managed.

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 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. 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.

Responsible and prudent financial risk management is carried out individually by each consolidated entity, in accordance with the State's risk management framework, developed by the Department of Treasury and Finance (DTF) and established by the Treasurer. The State's risk management framework comprises the following key components:

- the Treasurer is responsible for the approval and establishment of the prudential framework containing policies and guidelines on financial risk management;
- the Senior Executive Group of DTF is responsible for providing advice to the Treasurer on the management of the State's financial risk;
- DTF's Risk Management Committee is responsible for monitoring the balance sheet and risk management activities of the State and advising or making recommendations to the Senior Executive Group;
- the TCV is the State's central borrowing authority and financing advisor. An independent Prudential Supervisor and Prudential Auditor are appointed by the Treasurer to monitor TCV's compliance with its prudential framework;
- the Victorian Funds Management Corporation (VFMC) acts as the State's central investment fund manager through the provision of expertise in investment strategy development and delivery of funds management services in accordance with each entity's investment objectives; and

- all entities are responsible for the day to day operational management of their financial instruments and associated risks in accordance with the Treasury Management Guidelines.

It is not the State's policy to enter into or trade financial instruments for speculative purposes. The main risks arising from the State's financial instruments are fair value and cash flow interest rate risk, credit risk, liquidity risk, foreign currency risk and equity price risk.

### ***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 State's financial instruments are exposed to cash flow interest rate risk. The majority of the State's exposure to interest rate risk arises from fair value interest rate risk in relation to the State's long term debt obligations with fixed interest rates.

The State's borrowings are mainly managed by TCV, the State's central borrowing authority. Interest rate risk inherent in TCV's asset and liability management activities is monitored on a daily basis against Board approved limits using the value at risk methodology. Value at risk is a measure of the estimated loss faced by TCV within a certain level of confidence over a given holding period under normal market conditions. The value at risk is based on the historical movement of prices, yield and spread of potential losses a portfolio may incur over a certain period.

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. Over 95 per cent of the State's borrowings are at a fixed rate of interest.

### ***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 other receivables, predominantly debtors in relation to goods and services, statutory debtors in relation to taxes and fines, accrued investment income, and GST input tax credits recoverable, 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 is exposed to liquidity risk mainly through the maturity of its external borrowings raised from TCV and the need to fund cash deficits. TCV, as the State's central treasury, has the responsibility of ensuring the State's liquidity needs can be met at all times and has in place liquidity policies to ensure that it can meet its obligations in this area. The State also manages liquidity through rigorous cash flow and maturities planning and monitoring, including the annual budget process and through holding high quality liquid assets.

### ***Foreign currency 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***

The general government sector is exposed to equity price risk in equities and managed investment schemes. Such investments are allocated and traded to match investment objectives appropriate to the State's liabilities. The equity price risk is limited through diversification of the investment portfolio. This is determined by VFMC and reflected in the Investment Risk Management Plan approved by the Treasurer, and in accordance with the *Borrowing and Investments Powers Act 1987*, and the prudential supervisory policies and framework of the State.

## **Note 26: Glossary of technical terms**

The following is a summary of the major technical terms used in this report.

### ***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.

### ***Change in net worth***

Change in net worth (comprehensive result) is revenue from transactions less expenses from transactions plus other economic flows, and measures the variation in a government's accumulated assets and liabilities.

### ***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
  - 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:

- provide goods and services to the community and/or individuals free of charge or at prices that are not economically significant; and
- 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. Refer to Note 28 Controlled entities for listing of GG sector entities.

## ***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 based GG entity) 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, key fiscal aggregates 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 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 Public Non-Financial Corporations (PNFCs) and Public Financial Corporations (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 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.

### ***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 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 operating balance***

This is calculated as revenue from transactions less expenses from transactions.

### ***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.

### ***Non-financial assets***

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

### ***Non-financial public sector (NFPS)***

The non-financial public sector represents the consolidated transactions and assets and liabilities of the GG and PNFC 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 remeasurements.

### ***Other superannuation expense***

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.

### ***Payables***

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

### ***Public financial corporations (PFC) sector***

PFCs 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 TCV and the Transport Accident Commission. Estimates are not published for the public financial corporations sector.

### ***Public non-financial corporations (PNFC) sector***

The 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, PNFCs are legally distinguishable from the governments which own them.

### ***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. It 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: Government purpose classification**

The Government Purpose Classification (GPC) classifies expenses and acquisition of non-financial assets of the public sector in terms of the purposes for which the transactions are made. The major groups reflect the broad objectives of government and the groups and subgroups detail the means by which these broad objectives are achieved.

***General public services***

Include legislative and executive affairs, financial and fiscal affairs, external affairs, foreign economic aid, general research, general economic and social services, general statistical services, and government superannuation benefits.

***Public order and safety***

Includes police and fire protection services, law courts and legal services, prisons and corrective services, and control of domestic animals and livestock.

***Education***

Includes primary and secondary education, university and other higher education, technical and further education, preschool and special education, and transportation of students.

***Health***

Includes general hospitals, repatriation hospitals, mental health institutions, nursing homes, special hospitals, hospital benefits, medical clinics and practitioners, dental clinics and practitioners, maternal and infant health, ambulance services, medical benefits, school and other public health services, pharmaceuticals, medical aids and appliances, and health research.

***Social security and welfare***

Includes sickness benefits; benefits to ex servicemen and their dependants; invalid and other permanent disablement benefits; old age benefits, widows, deserted wives, divorcees and orphans benefits; unemployment benefits; family and child benefits; sole parents benefits; family and child welfare; and aged and handicapped welfare.

***Housing and community amenities***

Includes housing and community development, water supply, household garbage and other sanitation, sewerage, urban stormwater drainage, protection of the environment, and street lighting.

### ***Recreation and culture***

Includes public halls and civic centres, swimming pools and beaches, national parks and wildlife, libraries, creative and performing arts, museums, art galleries, broadcasting, and film production.

### ***Fuel and energy***

Includes coal, petroleum, gas, nuclear affairs, and electricity.

Agriculture, forestry, fishing and hunting

Includes agricultural land management, agricultural water resources management, agricultural support schemes, agricultural research and extension services, forestry, fishing, and hunting.

### ***Mining and mineral resources, other than fuels; manufacturing; and construction***

Includes activities relating to prospecting, mining and mineral resources development; manufacturing activities and research into manufacturing methods, materials and industrial management; and activities associated with the building and construction industry.

### ***Transport and communications***

Includes road construction, road maintenance, parking, water transport, rail transport, air transport, pipelines, multi mode urban transit systems, and communications.

### ***Other economic affairs***

Includes storage, saleyards, markets, tourism and area promotion, and labour and employment affairs.

### ***Other purposes***

Includes public debt transactions, general purpose inter government transactions, and natural disaster relief.

## Note 28: Controlled entities

Note 40 Controlled Entities within the *2008-09 Financial Report for the State of Victoria* contains a list of significant controlled entities which have been consolidated for the purposes of the financial report.

The following is a list of changes from 1 July 2009, of general government sector entities which have been consolidated for the purposes of the financial report.

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<i>Controlled Entities</i>	<i>General government</i>
<b>Department of Health</b> <sup>(a)</sup>	*
Albury Wodonga Health <sup>(b)</sup>	*
Cobram District Health <sup>(c)</sup>	*
Robinvale District Health Services <sup>(d)</sup>	*
<b>Department of Human Services</b> <sup>(a)</sup>	*
<b>Department of Transport</b>	*
Linking Melbourne Authority <sup>(c)</sup>	*
Southern Cross Station Authority <sup>(d)</sup>	*

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*Notes:*

- (a) *On 12 August 2009, the Premier announced the creation of a new Department of Health (incorporating health, mental health and drugs and aged care) and a new Department of Human Services (which will comprise disability, housing, children, youth and families). For accounting purposes, the machinery of government changes commenced on 1 October 2009.*
- (b) *Entities commenced operations during 2009-10 include:*  
– *Albury Wodonga Health, as of 1 July 2009.*
- (c) *Entities name changes:*  
– *Cobram District Hospital became Cobram District Health, on 1 July 2009.*  
– *Southern and Eastern Integrated Transport Authority became Linking Melbourne Authority, on 2 July 2009.*
- (d) *Entities ceased operations during 2009-10 include:*  
– *Manangatang and District Hospital has amalgamated with Robinvale District Health Services, as of 1 July 2009.*  
– *Southern Cross Station Authority is no longer a separate reporting body, as of 31 July 2009.*





## **CHAPTER 6: SUPPLEMENTARY UNIFORM PRESENTATION FRAMEWORK TABLES**

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The Government Finance Statistics system employed by the Australian Bureau of Statistics (ABS) is designed to provide statistics relating to all Australian public sector entities. The statistics show consolidated transactions of the various institutional sectors of government from an economic viewpoint, providing details of the revenue, expenses, payments, receipts, assets and liabilities. It includes only those transactions over which a government exercises control under its legislative or policy framework and excludes from the calculation of net operating balance both revaluations (holding gains or losses) arising from a change in market prices, and other changes in the volume of assets that result from discoveries, depletion and destruction of assets.

A revised Uniform Presentation Framework (UPF) was agreed by the Australian Loan Council in March 2008, based on AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. Hence, in addition to the revised Estimated Financial Statement and Notes presented in Chapter 5, the following statements are also required to be presented under the UPF.

**Table 6.1: Public non-financial corporations sector comprehensive operating statement**

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Revenue</b>					
Interest	55.5	47.4	42.9	41.4	38.0
Dividends	35.9	45.8	58.7	62.0	71.8
Sales of goods and services	4 148.6	3 982.3	4 605.4	4 889.5	5 286.3
Grants	2 851.7	2 945.5	2 492.0	2 442.2	2 490.9
Other current revenue	467.8	483.9	499.9	527.4	503.2
<b>Total revenue</b>	<b>7 559.6</b>	<b>7 504.9</b>	<b>7 698.9</b>	<b>7 962.5</b>	<b>8 390.1</b>
<b>Expenses</b>					
Employee expenses	803.4	844.7	862.6	889.5	915.3
Other superannuation	69.4	70.4	74.7	74.2	74.7
Depreciation and amortisation	1 055.4	1 325.6	1 457.3	1 568.3	1 672.8
Interest expense	700.7	549.4	672.7	961.7	1 288.7
Other operating expenses	3 850.1	3 828.0	4 035.6	4 134.0	4 436.7
Grants and other transfers	943.7	933.9	477.7	252.8	250.1
Other property expenses	90.3	110.0	158.9	131.7	96.9
<b>Total expenses</b>	<b>7 513.0</b>	<b>7 662.0</b>	<b>7 739.6</b>	<b>8 012.1</b>	<b>8 735.2</b>
<b>Net result from transactions – net operating balance</b>	<b>46.6</b>	<b>( 157.1)</b>	<b>( 40.6)</b>	<b>( 49.6)</b>	<b>( 345.1)</b>
<b>Other economic flows included in net result</b>					
Net gain/(loss) on sale of non-financial assets	( 14.9)	( 5.6)	5.7	6.4	4.3
Net gain/(loss) on financial assets or liabilities at fair value	29.7	37.2	37.1	37.7	28.9
Net actuarial gains/(losses) of superannuation defined benefits plans	..	..	..	..	..
Other gains/(losses) from other economic flows	( 38.2)	( 46.5)	21.3	19.4	27.3
<b>Total other economic flows included in net result</b>	<b>( 23.3)</b>	<b>( 14.9)</b>	<b>64.0</b>	<b>63.6</b>	<b>60.5</b>
<b>Net result</b>	<b>23.3</b>	<b>( 172.0)</b>	<b>23.4</b>	<b>13.9</b>	<b>( 284.6)</b>
<b>Other economic flows – other movements in equity</b>					
Net gain on financial assets at fair value	..	14.6	..	..	..
Revaluations of non-financial assets	( 168.2)	535.3	218.2	( 14.1)	( 28.6)
Other movements in equity	23.0	( 2.8)	..	..	..
<b>Total other economic flows – other movements in equity</b>	<b>( 145.2)</b>	<b>547.1</b>	<b>218.2</b>	<b>( 14.1)</b>	<b>( 28.6)</b>
<b>Comprehensive result – total change in net worth</b>	<b>( 122.0)</b>	<b>375.1</b>	<b>241.6</b>	<b>( 0.2)</b>	<b>( 313.2)</b>
<b>FISCAL AGGREGATES</b>					
<b>Net operating balance</b>	<b>46.6</b>	<b>( 157.1)</b>	<b>( 40.6)</b>	<b>( 49.6)</b>	<b>( 345.1)</b>
Less: net acquisition of non-financial assets	4 648.2	3 523.1	2 855.4	6 209.6	1 190.7
<b>Net lending/(borrowing)</b>	<b>(4 601.6)</b>	<b>(3 680.3)</b>	<b>(2 896.1)</b>	<b>(6 259.2)</b>	<b>(1 535.8)</b>

Source: Department of Treasury and Finance

**Table 6.2: Non-financial public sector comprehensive operating statement**

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Revenue</b>					
Taxation revenue	13 070.6	13 293.7	13 935.5	14 368.3	15 261.9
Interest	455.2	430.6	441.4	447.0	445.8
Dividends and income tax equivalents and rate equivalents	117.7	90.0	205.9	279.4	339.9
Sales of goods and services	7 957.5	7 715.7	8 624.3	8 923.7	9 400.9
Grants	21 475.8	22 174.8	21 436.0	21 499.7	22 699.6
Other current revenue	2 120.2	2 175.4	2 089.0	2 089.7	2 034.3
<b>Total revenue</b>	<b>45 197.1</b>	<b>45 880.1</b>	<b>46 732.1</b>	<b>47 607.8</b>	<b>50 182.5</b>
<b>Expenses</b>					
Employee expenses	16 042.9	16 001.1	16 714.2	17 491.8	18 337.7
Superannuation interest expense	659.2	866.7	801.2	820.5	838.1
Other superannuation	1 668.7	1 582.9	1 625.9	1 663.7	1 756.2
Depreciation and amortisation	2 701.8	2 967.9	3 291.5	3 566.7	3 832.4
Interest expense	1 379.7	1 311.5	1 614.6	2 090.5	2 461.9
Other operating expenses	16 261.8	16 488.0	16 619.8	16 774.3	17 052.3
Grants and other transfers	6 386.9	6 717.1	5 363.0	4 770.2	4 730.6
<b>Total expenses</b>	<b>45 101.0</b>	<b>45 935.1</b>	<b>46 030.2</b>	<b>47 177.5</b>	<b>49 009.1</b>
<b>Net result from transactions – net operating balance</b>	<b>96.1</b>	<b>( 55.0)</b>	<b>702.0</b>	<b>430.3</b>	<b>1 173.4</b>
<b>Other economic flows included in net result</b>					
Net gain on sale of non-financial assets	39.2	50.5	119.0	127.4	118.9
Net gain/(loss) on financial assets or liabilities at fair value	45.8	50.9	38.1	38.5	31.8
Net actuarial gains/(losses) of superannuation defined benefits plans	..	330.7	..	..	..
Other gains/(losses) from other economic flows	( 66.6)	( 175.4)	( 33.9)	( 33.8)	( 26.0)
<b>Total other economic flows included in net result</b>	<b>18.4</b>	<b>256.7</b>	<b>123.2</b>	<b>132.0</b>	<b>124.7</b>
<b>Net result</b>	<b>114.4</b>	<b>201.7</b>	<b>825.2</b>	<b>562.3</b>	<b>1 298.0</b>
<b>Other economic flows – other movements in equity</b>					
Net gain on financial assets at fair value	..	14.6	..	..	..
Revaluations of non-financial assets	3 000.0	3 472.6	2 197.8	4 930.8	2 778.7
Net gain on equity investments in other sector entities at proportional share of net assets	577.1	1 198.6	706.0	366.1	426.5
Other movements in equity	2.7	( 89.1)	10.5	37.4	54.9
<b>Total other economic flows – other movements in equity</b>	<b>3 579.8</b>	<b>4 596.8</b>	<b>2 914.3</b>	<b>5 334.3</b>	<b>3 260.0</b>
<b>Comprehensive result – total change in net worth</b>	<b>3 694.2</b>	<b>4 798.4</b>	<b>3 739.5</b>	<b>5 896.6</b>	<b>4 558.1</b>
<b>FISCAL AGGREGATES</b>					
<b>Net operating balance</b>	<b>96.1</b>	<b>( 55.0)</b>	<b>702.0</b>	<b>430.3</b>	<b>1 173.4</b>
Less: net acquisition of non-financial assets from transactions	8 138.6	6 936.9	5 744.2	8 406.9	2 001.7
<b>Net lending/(borrowing)</b>	<b>(8 042.6)</b>	<b>(6 991.9)</b>	<b>(5 042.2)</b>	<b>(7 976.6)</b>	<b>( 828.3)</b>

Source: Department of Treasury and Finance

**Table 6.3: Public non-financial corporations balance sheet**

	(\$ million)				
	2009-10 <i>Budget</i>	2009-10 <i>Revised</i>	2010-11 <i>Estimate</i>	2011-12 <i>Estimate</i>	2012-13 <i>Estimate</i>
<b>Assets</b>					
<i>Financial assets</i>					
Cash and deposits	637.3	542.3	553.2	504.3	232.0
Advances paid	82.4	80.4	74.3	66.4	62.6
Investments, loans and placements	1 382.8	1 612.9	1 445.1	1 364.5	1 221.8
Receivables	1 346.0	1 191.0	1 277.7	1 323.2	1 455.5
Investments accounted for using equity method	447.1	447.1	447.1	447.1	447.1
<b>Total financial assets</b>	<b>3 895.7</b>	<b>3 873.7</b>	<b>3 797.5</b>	<b>3 705.6</b>	<b>3 419.0</b>
<i>Non-financial assets</i>					
Inventories	676.4	733.6	771.5	735.1	650.3
Non-financial assets held for sale	38.2	4.9	4.1	3.2	2.3
Land, buildings, infrastructure, plant and equipment	72 917.9	72 134.2	74 999.7	81 233.3	82 529.6
Other non-financial assets	634.5	796.7	830.9	795.0	791.0
<b>Total non-financial assets</b>	<b>74 267.0</b>	<b>73 669.5</b>	<b>76 606.2</b>	<b>82 766.5</b>	<b>83 973.3</b>
<b>Total assets</b>	<b>78 162.7</b>	<b>77 543.2</b>	<b>80 403.6</b>	<b>86 472.1</b>	<b>87 392.3</b>
<b>Liabilities</b>					
Deposits held and advances received	104.0	103.6	100.6	98.9	99.1
Borrowings	10 574.3	9 599.6	10 937.9	16 254.0	16 730.7
Payables	1 363.3	1 124.4	997.2	930.1	912.0
Superannuation	74.8	66.6	65.4	66.4	67.7
Other employee benefits	235.4	239.6	247.8	258.8	269.4
Other provisions	4 350.6	4 379.8	4 278.8	4 034.1	3 886.8
<b>Total liabilities</b>	<b>16 702.5</b>	<b>15 513.7</b>	<b>16 627.7</b>	<b>21 642.2</b>	<b>21 965.7</b>
<b>Net assets</b>	<b>61 460.3</b>	<b>62 029.5</b>	<b>63 775.9</b>	<b>64 829.9</b>	<b>65 426.6</b>
Accumulated surplus/(deficit)	5 747.1	5 546.8	5 343.2	5 077.9	4 531.5
Reserves	55 713.1	56 482.7	58 432.7	59 751.9	60 895.1
<b>Net worth</b>	<b>61 460.3</b>	<b>62 029.5</b>	<b>63 775.9</b>	<b>64 829.9</b>	<b>65 426.6</b>
<b>FISCAL AGGREGATES</b>					
Net financial worth	(12 806.8)	(11 639.9)	(12 830.3)	(17 936.6)	(18 546.7)
Net financial liabilities	12 806.8	11 639.9	12 830.3	17 936.6	18 546.7
Net debt	8 575.8	7 467.7	8 965.8	14 417.7	15 313.4

Source: Department of Treasury and Finance

**Table 6.4: Non-financial public sector balance sheet**

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Assets</b>					
<i>Financial assets</i>					
Cash and deposits	3 221.1	2 807.1	2 999.5	3 317.8	3 492.6
Advances paid	111.0	109.3	102.7	94.7	90.8
Investments, loans and placements	4 024.4	4 276.2	4 089.9	4 000.6	3 872.1
Receivables	3 658.2	3 247.8	3 414.9	3 497.9	3 665.0
Investments accounted for using equity method – other	482.1	482.1	487.1	492.1	497.1
Investments in other sector entities	1 373.8	1 995.4	2 718.0	3 100.6	3 543.7
<b>Total financial assets</b>	<b>12 870.6</b>	<b>12 917.9</b>	<b>13 812.1</b>	<b>14 503.7</b>	<b>15 161.3</b>
<i>Non-financial assets</i>					
Inventories	925.7	985.1	1 022.9	986.3	901.4
Non-financial assets held for sale	105.7	69.5	59.0	48.6	38.2
Land, buildings, infrastructure, plant and equipment	167 068.5	165 892.8	173 743.8	187 332.3	192 449.0
Other non-financial assets	1 138.3	1 304.1	1 357.3	1 312.3	1 310.0
<b>Total non-financial assets</b>	<b>169 238.3</b>	<b>168 251.4</b>	<b>176 183.0</b>	<b>189 679.6</b>	<b>194 698.7</b>
<b>Total assets</b>	<b>182 108.8</b>	<b>181 169.4</b>	<b>189 995.1</b>	<b>204 183.3</b>	<b>209 859.9</b>
<b>Liabilities</b>					
Deposits held and advances received	416.0	419.2	415.4	413.2	413.4
Borrowings	25 495.2	24 136.0	29 036.5	37 220.1	38 320.8
Payables	4 981.7	4 502.6	4 297.6	4 073.0	3 972.9
Superannuation	21 033.7	20 789.5	21 114.0	21 471.1	21 679.3
Other employee benefits	4 701.8	4 673.7	4 867.6	5 034.8	5 204.7
Other provisions	1 941.8	2 005.3	1 881.5	1 691.9	1 431.7
<b>Total liabilities</b>	<b>58 570.1</b>	<b>56 526.4</b>	<b>61 612.7</b>	<b>69 904.2</b>	<b>71 022.8</b>
<b>Net assets</b>	<b>123 538.7</b>	<b>124 643.0</b>	<b>128 382.4</b>	<b>134 279.1</b>	<b>138 837.1</b>
Accumulated surplus/(deficit)	55 966.1	55 962.4	56 798.8	57 399.6	58 753.0
Reserves	67 513.1	68 621.0	71 524.1	76 820.0	80 024.6
Minority interest of contributed capital	59.5	59.5	59.5	59.5	59.5
<b>Net worth</b>	<b>123 538.7</b>	<b>124 643.0</b>	<b>128 382.4</b>	<b>134 279.1</b>	<b>138 837.1</b>
<b>FISCAL AGGREGATES</b>					
Net financial worth	(45 699.5)	(43 608.5)	(47 800.5)	(55 400.5)	(55 861.5)
Net financial liabilities	47 073.4	45 603.9	50 518.5	58 501.1	59 405.2
Net debt	18 554.7	17 362.6	22 259.8	30 220.2	31 278.7

Source: Department of Treasury and Finance

**Table 6.5: Public non-financial corporations sector cash flow statement**

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Grants	2 808.9	2 902.2	2 493.8	2 440.4	2 490.1
Sales of goods and services <sup>(a)</sup>	4 492.6	4 438.9	4 981.8	5 291.0	5 766.2
Interest	55.4	47.2	42.9	41.4	38.0
Dividends	36.0	45.8	58.7	62.0	71.8
Other receipts	248.1	250.3	311.0	374.4	217.5
<b>Total receipts</b>	<b>7 641.0</b>	<b>7 684.5</b>	<b>7 888.2</b>	<b>8 209.3</b>	<b>8 583.5</b>
<b>Payments</b>					
Payments for employees	( 801.5)	( 839.3)	( 855.1)	( 879.3)	( 905.3)
Superannuation	( 77.6)	( 86.7)	( 75.8)	( 73.2)	( 73.3)
Interest	(1 716.4)	(1 569.3)	(1 811.5)	(2 207.8)	(2 617.7)
Grants	( 887.0)	( 880.0)	( 415.0)	( 189.2)	( 187.0)
Goods and services <sup>(a)</sup>	(3 254.7)	(3 360.1)	(3 314.4)	(3 292.8)	(3 546.6)
Other payments	( 172.1)	( 214.0)	( 275.3)	( 326.6)	( 141.1)
<b>Total payments</b>	<b>(6 909.2)</b>	<b>(6 949.3)</b>	<b>(6 747.2)</b>	<b>(6 968.8)</b>	<b>(7 471.2)</b>
<b>Net cash flows from operating activities</b>	<b>731.8</b>	<b>735.1</b>	<b>1 141.0</b>	<b>1 240.5</b>	<b>1 112.3</b>
<b>Cash flows from investing activities</b>					
Non-financial assets					
Purchases of non-financial assets	(5 677.9)	(4 677.5)	(4 190.6)	(3 471.5)	(2 785.6)
Sales of non-financial assets	151.6	99.6	111.1	60.1	42.0
Cash flows from investments in non-financial assets	(5 526.3)	(4 577.9)	(4 079.5)	(3 411.3)	(2 743.6)
Net cash flows from investments in financial assets for policy purposes	1 944.9	2 001.6	1 737.8	1 341.3	1 175.6
Net cash flows from investments in financial assets for liquidity purposes	35.9	( 104.8)	143.7	( 5.3)	11.5
<b>Net cash flows from investing activities</b>	<b>(3 545.4)</b>	<b>(2 681.1)</b>	<b>(2 198.0)</b>	<b>(2 075.3)</b>	<b>(1 556.5)</b>
<b>Cash flows from financing activities</b>					
Advances received (net)	0.1	( 3.4)	( 0.1)	..	..
Net borrowings	2 923.1	1 938.9	1 294.5	1 068.0	430.4
Deposits received (net)	( 0.3)	3.0	( 3.1)	( 1.7)	0.2
Other financing (net)	( 187.9)	( 165.5)	( 223.5)	( 280.7)	( 258.9)
<b>Net cash flows from financing activities</b>	<b>2 735.1</b>	<b>1 773.0</b>	<b>1 067.7</b>	<b>785.6</b>	<b>171.7</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>( 78.6)</b>	<b>( 173.0)</b>	<b>10.7</b>	<b>( 49.1)</b>	<b>( 272.5)</b>
Cash and cash equivalents at beginning of reporting period	715.2	715.2	542.2	552.9	503.7
<b>Cash and cash equivalents at end of reporting period</b>	<b>636.6</b>	<b>542.2</b>	<b>552.9</b>	<b>503.7</b>	<b>231.2</b>

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

	(\$ million)				
	2009-10	2009-10	2010-11	2011-12	2012-13
	Budget	Revised	Estimate	Estimate	Estimate
<b>FISCAL AGGREGATES</b>					
Net cash flows from operating activities	731.8	735.1	1 141.0	1 240.5	1 112.3
Cash flows from investments in non-financial assets	(5 526.3)	(4 577.9)	(4 079.5)	(3 411.3)	(2 743.6)
Dividends paid	( 187.9)	( 165.5)	( 223.5)	( 280.7)	( 258.9)
<b>Cash surplus/(deficit)</b>	<b>(4 982.4)</b>	<b>(4 008.2)</b>	<b>(3 162.0)</b>	<b>(2 451.5)</b>	<b>(1 890.2)</b>

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)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Taxes	13 228.5	13 644.0	14 027.8	14 378.1	15 371.7
Grants	21 432.3	22 130.4	21 436.2	21 496.7	22 697.5
Sales of goods and services <sup>(a)</sup>	8 831.2	8 698.7	9 528.9	9 898.0	10 500.0
Interest	423.0	398.3	409.4	416.0	414.8
Dividends and income tax equivalent and rate equivalents	117.0	89.5	205.2	279.3	339.4
Other receipts	1 713.5	1 623.3	1 633.6	1 729.6	1 574.0
<b>Total receipts</b>	<b>45 745.5</b>	<b>46 584.3</b>	<b>47 241.1</b>	<b>48 197.8</b>	<b>50 897.5</b>
<b>Payments</b>					
Payments for employees	(15 851.8)	(15 837.8)	(16 520.4)	(17 325.3)	(18 168.1)
Superannuation	(2 049.3)	(2 084.5)	(2 102.6)	(2 127.1)	(2 386.1)
Interest	(1 294.8)	(1 203.9)	(1 516.7)	(1 998.2)	(2 378.7)
Grants	(6 386.3)	(6 779.2)	(5 484.7)	(4 897.6)	(4 856.8)
Goods and services <sup>(a)</sup>	(16 932.1)	(17 432.6)	(17 357.3)	(17 517.8)	(17 876.0)
Other payments	(375.4)	(359.8)	(370.1)	(385.2)	(404.7)
<b>Total payments</b>	<b>(42 889.7)</b>	<b>(43 697.7)</b>	<b>(43 351.9)</b>	<b>(44 251.3)</b>	<b>(46 070.4)</b>
<b>Net cash flows from operating activities</b>	<b>2 855.8</b>	<b>2 886.6</b>	<b>3 889.2</b>	<b>3 946.5</b>	<b>4 827.1</b>
<b>Cash flows from investing activities</b>					
Non-financial assets					
Purchases of non-financial assets	(10 908.6)	(9 835.5)	(8 964.9)	(6 973.6)	(6 009.0)
Sales of non-financial assets	376.5	364.7	363.7	236.8	294.9
Cash flows from investments in non-financial assets	(10 532.1)	(9 470.8)	(8 601.2)	(6 736.8)	(5 714.1)
Net cash flows from investments in financial assets for policy purposes	(9.9)	14.9	(15.0)	(13.7)	(17.7)
Net cash flows from investments in financial assets for liquidity purposes	(39.1)	(203.9)	163.2	4.3	0.2
<b>Net cash flows from investing activities</b>	<b>(10 581.1)</b>	<b>(9 659.9)</b>	<b>(8 453.0)</b>	<b>(6 746.2)</b>	<b>(5 731.7)</b>
<b>Cash flows from financing activities</b>					
Advances received (net)	(0.7)	(0.7)	(0.8)	(0.5)	..
Net borrowings	7 385.4	6 016.8	4 759.9	3 120.0	1 078.9
Deposits received (net)	(0.3)	3.0	(3.1)	(1.7)	0.2
<b>Net cash flows from financing activities</b>	<b>7 384.4</b>	<b>6 019.1</b>	<b>4 756.1</b>	<b>3 117.8</b>	<b>1 079.2</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(340.9)</b>	<b>(754.2)</b>	<b>192.2</b>	<b>318.1</b>	<b>174.6</b>
Cash and cash equivalents at beginning of reporting period	3 560.7	3 560.7	2 806.5	2 998.7	3 316.8
<b>Cash and cash equivalents at end of reporting period</b>	<b>3 219.8</b>	<b>2 806.5</b>	<b>2 998.7</b>	<b>3 316.8</b>	<b>3 491.3</b>



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

	(\$ million)				
	2009-10	2009-10	2010-11	2011-12	2012-13
	<i>Budget</i>	<i>Revised</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
<b>FISCAL AGGREGATES</b>					
Net cash flows from operating activities	2 855.8	2 886.6	3 889.2	3 946.5	4 827.1
Net cash flows from investments in non-financial assets	(10 532.1)	(9 470.8)	(8 601.2)	(6 736.8)	(5 714.1)
<b>Cash surplus/(deficit)</b>	<b>(7 676.3)</b>	<b>(6 584.3)</b>	<b>(4 712.0)</b>	<b>(2 790.4)</b>	<b>( 887.0)</b>

*Source: Department of Treasury and Finance*

*Note:*

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

**Table 6.7: Public non-financial corporations sector statement of changes in equity**

(\$ million)

	<i>Equity at 1 July</i>	<i>Total comprehensive result</i>	<i>Transactions with owners in their capacity as owners</i>	<i>Dividends</i>	<i>Equity at 30 June</i>
<b>2009-10 budget</b>					
Accumulated surplus/(deficit)	5 886.6	23.3	..	( 187.9)	5 722.0
Other movements in equity	..	25.3	..	..	25.3
Adjustment for change in accounting policy	..	( 0.2)	..	..	( 0.2)
Contributed capital	22 437.7		1 933.8	..	24 371.4
Physical asset revaluation reserve	30 630.3	( 168.2)	..	..	30 462.0
Net movements in other reserves	881.8	( 2.1)	..	..	879.7
<b>Total equity at end of the period</b>	<b>59 836.3</b>	<b>( 122.0)</b>	<b>1 933.8</b>	<b>( 187.9)</b>	<b>61 460.3</b>
<b>2009-10 revised</b>					
Accumulated surplus/(deficit)	5 886.6	( 172.0)	..	( 167.7)	5 546.8
Other movements in equity	..	..	..	..	..
Adjustment for change in accounting policy	..	..			..
Contributed capital	22 437.7		1 985.9	..	24 423.5
Physical asset revaluation reserve	30 630.3	535.3	..	..	31 165.6
Net movements in other reserves	881.8	11.8	..	..	893.6
<b>Total equity at end of the period</b>	<b>59 836.3</b>	<b>375.1</b>	<b>1 985.9</b>	<b>( 167.7)</b>	<b>62 029.5</b>
<b>2010-11 estimate</b>					
Accumulated surplus/(deficit)	5 546.8	23.4	..	( 227.0)	5 343.2
Other movements in equity	..	..	..	..	..
Adjustment for change in accounting policy	..	..			..
Contributed capital	24 423.5		1 731.7	..	26 155.3
Physical asset revaluation reserve	31 165.6	218.2	..	..	31 383.8
Net movements in other reserves	893.6	..	..	..	893.6
<b>Total equity at end of the period</b>	<b>62 029.5</b>	<b>241.6</b>	<b>1 731.7</b>	<b>( 227.0)</b>	<b>63 775.9</b>

**Table 6.7: Public non-financial corporations sector statement of changes in equity (continued)**

	(\$ million)				
	Equity at 1 July	Total comprehensive result	Transactions with owners in their capacity as owners	Dividends	Equity at 30 June
<b>2011-12 estimate</b>					
Accumulated surplus/(deficit)	5 343.2	14.0	..	( 279.3)	5 077.9
Other movements in equity	..	..	..	..	..
Adjustment for change in accounting policy	..	..			..
Contributed capital	26 155.3		1 333.4	..	27 488.7
Physical asset revaluation reserve	31 383.8	( 14.1)	..	..	31 369.7
Net movements in other reserves	893.6	..	..	..	893.6
<b>Total equity at end of the period</b>	<b>63 775.9</b>	<b>( 0.1)</b>	<b>1 333.4</b>	<b>( 279.3)</b>	<b>64 829.9</b>
<b>2012-13 Estimate</b>					
Accumulated surplus/(deficit)	5 077.9	( 284.5)	..	( 262.0)	4 531.5
Other movements in equity	..	..	..	..	..
Adjustment for change in accounting policy	..	..			..
Contributed capital	27 488.7		1 171.8	..	28 660.5
Physical asset revaluation reserve	31 369.7	( 28.6)	..	..	31 341.0
Net movements in other reserves	893.6	..	..	..	893.6
<b>Total equity at end of the period</b>	<b>64 829.9</b>	<b>( 313.1)</b>	<b>1 171.8</b>	<b>( 262.0)</b>	<b>65 426.6</b>

Source: Department of Treasury and Finance

**Table 6.8: Non-financial public sector statement of changes in equity**

	(\$ million)				
	<i>Equity at 1 July</i>	<i>Total comprehensive result</i>	<i>Transactions with owners in their capacity as owners</i>	<i>Dividends</i>	<i>Equity at 30 June</i>
<b>2009-10 budget</b>					
Accumulated surplus/(deficit)	55 846.8	114.4	..	..	55 961.2
Other movements in equity	..	5.1	..	..	5.1
Adjustment for change in accounting policy	..	( 0.2)	..	..	( 0.2)
Minority interest	39.5		20.0		59.5
Physical asset revaluation reserve	61 651.5	3 000.0	..	..	64 651.5
Net movements in other reserves	1 669.9	( 2.1)	..	..	1 667.7
Accumulated net gain (loss) on equity investments in other sector entities	616.8	577.1	..	..	1 193.8
<b>Total equity at end of the period</b>	<b>119 824.5</b>	<b>3 694.2</b>	<b>20.0</b>	<b>..</b>	<b>123 538.7</b>
<b>2009-10 revised</b>					
Accumulated surplus/(deficit)	55 846.8	201.7	..	..	56 048.5
Other movements in equity	..	( 86.1)	..	..	( 86.1)
Adjustment for change in accounting policy	..	..			..
Minority interest	39.5		20.0		59.5
Physical asset revaluation reserve	61 651.5	3 472.6	..	..	65 124.2
Net movements in other reserves	1 669.9	11.6	..	..	1 681.4
Accumulated net gain (loss) on equity investments in other sector entities	616.8	1 198.6	..	..	1 815.4
<b>Total equity at end of the period</b>	<b>119 824.5</b>	<b>4 798.4</b>	<b>20.0</b>	<b>..</b>	<b>124 643.0</b>
<b>2010-11 estimate</b>					
Accumulated surplus/(deficit)	55 962.4	825.2	..	..	56 787.6
Other movements in equity	..	11.2	..	..	11.2
Adjustment for change in accounting policy	..	..			..
Minority interest	59.5		..		59.5
Physical asset revaluation reserve	65 124.2	2 197.8	..	..	67 322.0

**Table 6.8: Non-financial public sector statement of changes in equity (continued)**

(\$ million)

	<i>Equity at 1 July</i>	<i>Total comprehensive result</i>	<i>Transactions with owners in their capacity as owners</i>	<i>Dividends</i>	<i>Equity at 30 June</i>
Net movements in other reserves	1 681.4	( 0.7)	..	..	1 680.7
Accumulated net gain (loss) on equity investments in other sector entities	1 815.4	706.0	..	..	2 521.4
<b>Total equity at end of the period</b>	<b>124 643.0</b>	<b>3 739.5</b>	..	..	<b>128 382.4</b>
<b>2011-12 estimate</b>					
Accumulated surplus/(deficit)	56 798.8	562.3	..	..	57 361.2
Other movements in equity	..	38.4	..	..	38.4
Adjustment for change in accounting policy	..	..			..
Minority interest	59.5		..		59.5
Physical asset revaluation reserve	67 322.0	4 930.8	..	..	72 252.8
Net movements in other reserves	1 680.7	( 1.0)	..	..	1 679.8
Accumulated net gain (loss) on equity investments in other sector entities	2 521.4	366.1			2 887.4
<b>Total equity at end of the period</b>	<b>128 382.4</b>	<b>5 896.6</b>	..	..	<b>134 279.1</b>
<b>2012-13 estimate</b>					
Accumulated surplus/(deficit)	57 399.6	1 298.0	..	..	58 697.6
Other movements in equity	..	55.4	..	..	55.4
Adjustment for change in accounting policy	..	..			..
Minority interest	59.5		..		59.5
Physical asset revaluation reserve	72 252.8	2 778.7	..	..	75 031.5
Net movements in other reserves	1 679.8	( 0.5)	..	..	1 679.3
Accumulated net gain (loss) on equity investments in other sector entities	2 887.4	426.5	..	..	3 313.9
<b>Total equity at end of the period</b>	<b>134 279.1</b>	<b>4 558.1</b>	..	..	<b>138 837.1</b>

Source: Department of Treasury and Finance

**Table 6.9: Derivation of public non-financial corporations sector GFS cash surplus/(deficit)**

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Cash surplus/(deficit)</b>	<b>(4 982.4)</b>	<b>(4 008.2)</b>	<b>(3 162.0)</b>	<b>(2 451.5)</b>	<b>(1 890.2)</b>
Convergence differences:					
Acquisitions under finance leases and similar arrangements	( 0.7)	( 17.4)	( 12.3)	( 13.6)	( 15.0)
<b>GFS cash surplus/(deficit) <sup>(a)</sup></b>	<b>(4 983.1)</b>	<b>(4 025.7)</b>	<b>(3 174.3)</b>	<b>(2 465.0)</b>	<b>(1 905.2)</b>

Source: Department of Treasury and Finance

Note:

(a) Determined in accordance with ABS GFS manual.

**Table 6.10: Derivation of non-financial public sector GFS cash surplus/(deficit)**

	(\$ million)				
	2009-10 Budget	2009-10 Revised	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Cash surplus/(deficit)</b>	<b>(7 676.3)</b>	<b>(6 584.3)</b>	<b>(4 712.0)</b>	<b>(2 790.4)</b>	<b>( 887.0)</b>
Acquisitions under finance leases and similar arrangements	( 75.4)	( 92.1)	( 133.3)	(5 056.7)	( 15.0)
<b>GFS cash surplus/(deficit) <sup>(a)</sup></b>	<b>(7 751.7)</b>	<b>(6 676.3)</b>	<b>(4 845.3)</b>	<b>(7 847.0)</b>	<b>( 902.0)</b>

Source: Department of Treasury and Finance

Note:

(a) Determined in accordance with ABS GFS manual.

**Table 6.11: Net acquisition of non-financial assets – Public non-financial corporations sector**

	(\$ million)				
	2009-10	2009-10	2010-11	2011-12	2012-13
	Budget	Revised	Estimate	Estimate	Estimate
Purchases of non-financial assets	5 677.9	4 677.5	4 190.6	3 471.5	2 785.6
Less: Sales of non-financial assets	( 151.6)	( 99.6)	( 111.1)	( 60.1)	( 42.0)
Less: Depreciation	(1 055.4)	(1 325.6)	(1 457.3)	(1 568.3)	(1 672.8)
Plus: Change in inventories	0.4	57.6	37.8	( 36.4)	( 84.7)
Plus: Other movements in non-financial assets	177.0	213.2	195.4	4 402.9	204.6
<b>Total net acquisition of non-financial assets</b>	<b>4 648.2</b>	<b>3 523.1</b>	<b>2 855.4</b>	<b>6 209.6</b>	<b>1 190.7</b>

Source: Department of Treasury and Finance

**Table 6.12: Net acquisition of non-financial assets – Non-financial public sector**

	(\$ million)				
	2009-10	2009-10	2010-11	2011-12	2012-13
	Budget	Revised	Estimate	Estimate	Estimate
Purchases of non-financial assets	10 908.6	9 835.5	8 964.9	6 973.6	6 009.0
Less: Sales of non-financial assets	( 376.5)	( 364.7)	( 363.7)	( 236.8)	( 294.9)
Less: Depreciation	(2 701.8)	(2 967.9)	(3 291.5)	(3 566.7)	(3 832.4)
Plus: Change in inventories	0.5	59.8	37.8	( 36.5)	( 85.0)
Plus: Other movements in non-financial assets	307.9	374.1	396.6	5 273.3	204.9
<b>Total net acquisition of non-financial assets</b>	<b>8 138.6</b>	<b>6 936.9</b>	<b>5 744.2</b>	<b>8 406.9</b>	<b>2 001.7</b>

Source: Department of Treasury and Finance

## Victoria's 2009-10 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 6.13 compares Victoria's 2009-10 LCA as approved by the Loan Council in March 2009, with the revised LCA based on *2009-10 Budget Update* estimates.

**Table 6.13: Loan Council Allocation**

	(\$ million)	
	2009-10 Nomination	2009-10 Revised
General government cash deficit (+)/ surplus (-)	703.0	2 562.2
Public non-financial corporations sector cash deficit (+)/ surplus (-)	4 120.2	4 008.2
Non-financial public sector cash deficit (+)/ surplus (-) <sup>(a)</sup>	4 822.7	6 584.3
Acquisitions under finance leases and similar arrangements	..	92.1
ABS GFS cash deficit(+)/surplus(-)	4 822.7	6 676.3
Net cash flows from investments in financial assets for policy purposes <sup>(b)</sup>	( 2.6)	14.9
Memorandum items <sup>(c)</sup>	328.0	314.1
<b>Loan Council Allocation</b>	<b>5 153.3</b>	<b>6 975.6</b>
Tolerance limit (2 per cent of non-financial public sector cash receipts from operating activities) <sup>(d)</sup>	858.6	858.6

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.
- (b) The non-financial public sector surplus/deficit relating to 2009-10 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' (2008-09 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 2009-10 is \$858.6 million (2 per cent of \$42 928.6 million – sourced from 2008-09 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 provide an explanation to the Loan Council and, in line with the emphasis of the increased transparency, to make the explanation public. The 2009-10 revised LCA (deficit of \$6 976 million) exceeded the tolerance limit estimated for Victoria at budget time. The change of \$1 822 million in the LCA between 2009-10 nomination and 2009-10 revised is due to:

- revision in the general government cash position from a \$703 million deficit to a \$2 562 million deficit due to a significant increase in net cash flows from investments in non-financial assets for additional funding of capital expenditure programs;
- change in the public non-financial corporation sector cash position from a \$4 120 million deficit to a \$4 008 million deficit; and
- recognition of finance leases of \$92 million for the Victorian schools public private partnerships project and VicTrack rolling stock.

In the interests of transparency, 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 public private partnerships (PPP) projects, which are expected to be contracted in the 2009-10 financial year.

### **Desalination project**

The desalination project was announced in June 2007 as part of *Our Water Our Future: The Next Stage of the Government's Water Plan*. It was subsequently announced in September 2007 that the project would be delivered as a PPP.

On 30 July 2009, the Government announced that the AquaSure consortium, consisting of Suez Environnement, Degremont, Thiess and Macquarie Capital Group, was the successful tenderer for the project. Financial close was reached on 2 September 2009.

The AquaSure consortium will be responsible for the design, construction, financing, operations and maintenance of the facility, which will be located in the Wonthaggi region.

Construction commenced in September 2009 and water is due to be supplied by the end of 2011. The term of the contract is 30 years and one month from the date of financial close.

## **Ararat Prison**

In July 2008 it was announced that the new 350 bed medium security Ararat prison would be procured as a PPP, adjacent to the existing Ararat prison. The prison is a key part of the Government's *Building Confidence in Corrections* initiative to progressively upgrade Victoria's correctional system to meet projected prisoner growth.

The private sector partner will design, construct, finance and maintain the facilities over the contract period, while core custodial services will be retained by the State. The project is a key component of the *Building Confidence in Corrections* initiative, which was allocated \$317 million TEI in the *2008-09 Budget*. Contract execution is expected to take place in the first quarter of 2010, with the prison expected to be completed in 2012.

The term of the contract is 25 years from the date of commercial acceptance. The project contract will include an obligation for the Government to make a payment to the contractor should the Government terminate the contract for default. The quantum of the payment is not expected to exceed the remaining balance of the approved project funding at any time.

## **Peninsula Link**

In March 2009 the Peninsula Link road project was announced as a PPP using an availability model. Under this model there is no tolling of users. Payment to the private sector proponent is subject to the ongoing achievement of specific service standards.

The project is a part of the *Victorian Transport Plan* and involves building 25 kilometres of freeway standard road between the Frankston Freeway-EastLink interchange at Carrum Downs and the Mornington Peninsula Freeway at Mount Martha. The private sector partner will design, build, finance, operate and maintain the Peninsula Link. Contract execution is expected to take place in the last quarter of 2009, with the road expected to be completed in early 2013. The term of the contract will be 25 years from construction completion.

## CHAPTER 7: Contingent assets and contingent liabilities

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### 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 as at 31 October 2009

	(\$ million)	
	2008	2009
Guarantees, indemnities and warranties	1.3	2.0
Legal proceedings and disputes	3.3	..
Other <sup>(a) (b)</sup>	208.1	128.8
<b>Total contingent assets</b>	<b>212.7</b>	<b>130.8</b>

Notes:

- (a) 2009 includes the Channel Deepening Project Environmental Performance Bond of \$100 million and the EastLink project of \$27 million. The remaining amounts in 'Other' relate to smaller individual contingencies.
- (b) 2008 includes the EastLink project of \$92 million and an adjustment relating to the \$100 million Channel Deepening Project Environmental Performance Bond.

### EastLink

ConnectEast, the concessionaire for the EastLink project, has provided a construction bond in relation to the project. The EastLink Concession Deed provides for staged reductions in the amount of the construction bond at certain milestone dates. The first of these reductions was prescribed to occur on the date which was one month after the last date of tolling completion, which occurred on 13 June 2008. Accordingly, the construction bond was reduced by 50 per cent from \$88 million to \$44 million (as required by the concession deed) on 13 July 2008. It was reduced further to \$22 million one month after issue of a certificate of close out, dated 30 July 2009.

ConnectEast has also provided a \$5 million operating phase bond (indexed). In the event of certain 'events of default', there is potential for this amount to increase to \$20 million (indexed).

### *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 of such was subject to a number of conditions, including the Port of Melbourne Corporation providing a \$100 million environmental performance bond in favour of the Minister for Environment and Climate Change. Should it be called upon, the performance bond would be used for any remedial action or post dredging recovery works as agreed with the Minister for Roads and Ports.

### **Non-quantifiable contingent assets**

There are probable future economic benefits to the government which are not quantifiable at this time.

An overview of the more significant non quantifiable assets follows.

#### *CityLink compensable enhancement claims*

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

Compensable enhancement claims have previously been lodged by the Victorian Government relating to works improving traffic flows on the Westgate Freeway (between Lorimer and Montague Streets), and the Tullamarine Freeway (in the vicinity of the intersection with Bulla Road). The claims were lodged on 20 May 2005 and 29 September 2006 respectively, and are still outstanding.

#### *Revenue sharing from the Tullamarine/Calder Freeway interchange upgrade*

On 9 June 2005, CML and the Victorian Government entered into the Tullamarine-Calder Freeway redevelopment deed. Under the terms of this deed, the Victorian Government upgraded the Tullamarine-Calder Freeway interchange and agreed with CML on a method for calculating the additional CityLink revenue generated by the upgrade based on comparing actual traffic data against trends. CML paid an initial \$11 million to the Victorian Government on 1 July 2005 and a reassessment is scheduled to take place effective 1 January 2010.

#### *Revenue sharing from the Monash-CityLink-West Gate upgrade*

On 25 July 2006, CML, Transurban Infrastructure Management Limited (TIML) and the Victorian Government entered into the M1 Corridor redevelopment deed.

Under the term of this deed, the Victorian Government will upgrade the Monash and West Gate Freeways, while CML will upgrade the Southern Link section of CityLink. The Victorian Government will become entitled to 50 per cent of the additional CityLink revenue created by the Monash-CityLink-Westgate Upgrade after CML recovers its construction and additional operating costs relating to works on the Southern Link.

The method used to calculate the additional CityLink revenue generated from the upgrade is to be based on comparing actual CityLink revenue against agreed trends. The actual calculation of the additional CityLink revenue will take place three full financial years after completion of the upgrade.

### *EastLink*

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 earlier, 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 cover project rectification costs to the end of the concession period in 2043.

### *Contingent asset arising from goods and services tax*

Eligibility to claim input tax credits for payment of certain transport related subsidies was heard in October 2009 and was found in favour of the Department of Transport. The Commissioner of Taxation has until 25 November 2009 to appeal the decision which may or may not result in an asset for the Department.

## **CONTINGENT LIABILITIES**

A contingent liability is:

- a possible obligation that arises from past events, 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 as at 31 October 2009

(\$ million)

	2008	2009 <sup>(a)</sup>
Guarantees, indemnities and warranties	613.4	611.3
Legal proceedings and disputes	347.9	389.6
Other	166.9	201.5
Non-general government debt <sup>(b)</sup>	4 516.5	6 220.2
<b>Total contingent liabilities</b>	<b>5 644.7</b>	<b>7 422.6</b>

Notes:

- (a) *There have been no material changes to general government sector quantifiable contingent liabilities since last reported in the 2008-09 Financial Report for 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

There are other commitments, made by government, which are not quantifiable at this time, 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.

An overview of the more significant non-quantifiable liabilities follows.

#### 2009 Victorian bushfires

In early 2009, devastating fires ravaged many parts of Victoria. These fires impacted significantly on local communities and required the application of material resources by the State to assist with the fire suppression, recovery and reconstruction of the affected areas, with the Commonwealth Government agreeing to jointly fund relevant programs.

The Victorian Government announced the establishment of the Victorian Bushfire Reconstruction and Recovery Authority to coordinate the activities of local, state and Commonwealth Government agencies, and the communities involved, to assist with recovery and rebuilding activity across Victoria. While a significant quantum of expenditure has been incurred to date, further obligations may arise pending the final outcomes of the Victorian Bushfires Royal Commission and the finalisation of council claims processes.

#### 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 Showgrounds Nominees Pty Ltd arising in relation to joint venture dealings as outlined in the Development and Operations Agreement for the Royal Melbourne Showgrounds redevelopment project.

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.

Separately, under the State Commitment to the Royal Agricultural Society of Victoria (RASV), the State has agreed to support certain obligations of the RASV which may arise out of the Joint Venture Agreement. In accordance with the terms in the State Commitment to the RASV, the State will meet certain RASV obligations, in the form of a loan, if requested by the RASV when the RASV does not have financial capacity to pay, and provided the RASV has materially complied with all its material obligations under the Project Objectives Agreement, RASV 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 24 August 2006), the RASV will be obliged to satisfy and discharge each such outstanding loan amount. This may take the form of the transfer to the State of part or the whole of the RASV's 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 RASV 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. This agreement concerns the development of a non core site on Epsom Road involving construction of a supermarket, shops and child care centre. In March 2007, Showgrounds Retail Developments Pty Ltd assigned all its rights and obligations under these agreements, via an Assignment Deed, to Coles Group Property Developments Ltd. Coles completed the development on 26 August 2009.

## *National Electricity Code Administrator*

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

### *National Electricity Market Management Company Ltd*

In order for the State Electricity Commission of Victoria (SECV) to participate in the national electricity market administered by National Electricity Market Management Company Limited (NEMMCO), a guarantee must be provided to NEMMCO by an acceptable financial institution. Treasury Corporation of Victoria (TCV) has provided such a guarantee whereby it undertakes to pay to NEMMCO on demand any and all amounts to an aggregate amount not exceeding \$147.4 million (as at 30 June 2009) as security for the obligations of SECV to NEMMCO. The guarantee is issued pursuant to Section 9(1) of the *Treasury Corporation of Victoria Act 1992* and is approved by the Treasurer. The guarantee is fully supported by an indemnity from SECV and by non-withdrawable deposits which SECV is obliged to maintain with TCV at an amount of 101 per cent of the amount guaranteed.

### *Public transport rail partnership agreements*

The Director of Public Transport (the Director), on behalf of the Crown, entered into partnership contractual arrangements with franchisees to operate metropolitan rail transport services in the State, operative from 18 April 2004 to 30 November 2009. Replacement contractual arrangements have now been entered into with new franchisees. These arrangements will be operative from 30 November 2009 until 30 November 2017. The following summarises the major contingent liabilities arising from the arrangements current as at 25 November 2009. On commencement of the new arrangements, similar contingent liabilities will apply.

### *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.

### *OneLink Transit Systems performance bonus*

The State recognises a contingent liability relating to the performance bonus component of the contract with OneLink Transit Systems. It is more likely than not that system and equipment availability and overall performance achievements in 2009-10 through to the end of the contract may be higher than the originally set forecast level for performance bonus payments given a pro-active maintenance regime that may result in better than expected equipment reliability. At this time, it is not possible to accurately predict the amount of potential performance bonus payments as this will be impacted by variables,



such as patronage growth, equipment performance and vandalism. In particular, performance of these variables will be impacted by the reliability of equipment which is nearing the end of its design life.

### *Kamco performance-related payments*

The State recognises a contingent liability relating to performance-related payments associated with, and incorporated into the new ticketing solution (myki) contract with Kamco (Keane Australia Micropayments Consortium Pty Ltd). It is more likely than not that performance standards will be achieved to a standard which attracts performance bonuses but it is too early to accurately forecast these amounts.

### *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.

### *Contingent liability arising from goods and services tax*

CityLink Melbourne Limited and the Victorian Government have approached the Australian Taxation Office seeking clarification as to the applicability of Goods and Services Tax legislation in respect of services and supplies provided under the Melbourne CityLink Concession Deed. Discussions with the Australian Taxation Office are continuing.

### *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 (Cwth)* 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 (DEECD) to:

- the Commonwealth in various 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;
- teachers, volunteer workers, school chaplains and school councils. The indemnity for teachers protects them against liability for personal injuries to students provided the teacher was not intoxicated, or engaged in a criminal offence, or engaged in outrageous conduct, and was incurred in the course of the teachers employment; and
- members of school councils. The *Education and Training Reform Act 2006* provides a comprehensive indemnity to members of school councils for any legal liability, whether in contract, negligence, and defamation, etc.

The Government also provides an indemnity for persons employed under the *Public Administration Act 2004*.

## *The Biosciences Research Centre*

The Biosciences Research Centre (BRC) Project is a joint initiative between the Victorian Government, through the Department of Primary Industries (DPI), and La Trobe University (La Trobe). The Project is being delivered as a Public Private Partnership in accordance with the Victorian Government's *Partnerships Victoria* framework. DPI and La Trobe have formed an unincorporated joint venture for the purposes of undertaking the BRC Project. The BRC facility that is to be constructed will be known as *AgriBio (Centre for AgriBioscience)*.

The project involves a partnership between the joint venture and the private sector consortium, Plenary Research Pty Ltd (the Concessionaire), which is responsible for the design, construction, commissioning and financing of the BRC facility and the provision of contracted services required for the maintenance and operation of the facility. The joint venture participants established an incorporated entity known as Biosciences Research Centre Pty Ltd for the purposes of entering into the contractual arrangements with the Concessionaire.

Under the *Partnerships Victoria* contract, the service fee payment obligations of Biosciences Research Centre Pty Ltd (on behalf of the joint venture participants) are supported by the State of Victoria. In accordance with the contract, the State supports the underlying payment obligations of the joint venture participants to the joint venture company, thereby enabling the joint venture company to meet its obligations to pay the service fee to the Concessionaire pursuant to the contract.

### *Royal Children's Hospital*

The Royal Children's Hospital Foundation (RCHF) has entered into a funding agreement with the Commonwealth Government for the provision of \$21 million to undertake the Australian Early Development Index Project. The State has entered into this agreement at the request of the Royal Children's Hospital. In consideration of entering into the funding agreement, the State has agreed to be responsible for the obligations and liabilities imposed on RCHF under the funding agreement, including but not limited to the indemnity granted by RCHF to the Commonwealth of Australia under clause 19 of the funding agreement.

### *HIH Insurance Group*

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 in the event of future developments taking place.

### *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.

### *Domestic building insurance*

On 13 March 2002, Victoria and New South Wales jointly announced a series of reforms to domestic building insurance arrangements. This announcement included a commitment to provide a catastrophe fund capable of supporting claims above \$10 million. To meet this commitment, the two states offered reinsurance arrangements to all domestic building insurers covering claims in respect of any one builder in excess of \$10 million, with each state reinsuring claims relating to properties in that state. South Australia has since also become involved in these arrangements. Since domestic building insurance commenced, there have been no losses by an insurer to any one builder that exceed this amount.

Victoria has re-insurance agreements giving effect to these arrangements with three insurers. These agreements require each insurer to pay reinsurance premiums to Victoria (and to any other state that is also a party to such an agreement) that are estimated to be sufficient for the State to at least break even on these arrangements. However, the State retains an unquantifiable contingent liability for additional claims.

### *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. The *Gambling Regulation Act 2003* specifies end of licence arrangements which 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 instead license wagering 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**

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Appendix A outlines specific government policy initiatives that affect output, asset investment and revenue positions, including Treasurer's Advances, made since the *2009-10 Budget* in May. 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 clearly indicate the impact of policy decisions on relevant portfolios, and to 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)			
	2009-10	2010-11	2011-12	2012-13
<b>Bushfire response and preparedness activities</b>				
Bushfire clean up	17.3	..	..	..
Bushfire research	0.5	..	..	..
Community education and behavioural change campaign	11.7	..	..	..
Emergency Services Telecommunications Authority surge capacity	0.8	..	..	..
Fire season preparedness activities	35.1	..	..	..
Identification of high risk bushfire zones	2.0	..	..	..
Municipal Association of Victoria bushfire preparations	0.5	..	..	..
National emergency warning system	3.9	..	..	..
Outer suburban fire protection	5.3	5.3	5.3	5.3
Pre-established incident control centres	12.5	..	..	..
Pre-formed incident management teams	1.3	..	..	..
Rural fire stations program – Stage 1	0.3	0.6	0.9	1.2
Single bushfire website	1.3	..	..	..
Strategic fuel breaks	6.2	..	..	..
Upgrade of intelligence gathering analysis and alerting capability	2.5	..	..	..
Vegetation management – private land, roadsides and rail corridors	0.7	..	..	..
VicForests fire salvage program	14.0	2.1	0.5	..
Victorian bushfire information line	0.6	..	..	..
<b>Drought response</b>				
Drought Apprenticeship Retention Bonus	1.9	..	..	..
Drought communications	0.5	..	..	..
Drought extension support	2.3	..	..	..
Farm improvement grant	13.5	..	..	..
Intensive transition support services	0.5	..	..	..
Municipal rate subsidy	9.0	..	..	..
VicRelief and Foodbank	1.6	..	..	..
Water rate rebate	9.0	..	..	..
<b>Drought contribution levy</b>	- 38.0	..	..	..
<b>Statewide plan for bushfire reconstruction and recovery</b>				
Agribusiness	0.1	0.1	0.1	..
Builder technical support and advice	0.2	0.1	..	..
Business recovery package	0.6	..	..	..
Callignee community centre	2.5	..	..	..
Children, youth and families – educational resources	3.3	1.6	..	..
Community engagement and communications	3.5	..	..	..
Community service hubs	5.2	4.0	..	..
Corporate operations – VBRRA	2.5	..	..	..
Emergency stabilisation works	5.8	..	..	..
Expanding tourism options – recreational fishery	0.1	..	..	..

**Table A.1: Output initiatives – government wide (continued)**

	(\$ million)			
	2009-10	2010-11	2011-12	2012-13
Farmland stabilisation	0.8	..	..	..
Financial assistance	5.5	..	..	..
Health and psychosocial service	0.6	0.6	0.6	..
Housing, accommodation and support service	11.7	5.8	..	..
Implementation and project management	5.0	..	..	..
Increasing local government capacity	0.5	..	..	..
Land and water management	1.0	..	..	..
Marysville community learning, health and recreation hub	1.3	..	..	..
Middle Kinglake education and community recreation precinct	4.3	0.3	..	..
Pest plant and animal biosecurity	0.5	0.4	0.4	0.4
Rebuilding advisory service	1.5	0.5	..	..
Rehabilitation of threatened species	1.0	..	..	..
The new Lake Mountain experience	0.9	..	..	..
<b>Rooming houses</b>	5.4	10.2	10.3	1.1
<b>Total output initiatives</b>	<b>180.3</b>	<b>31.4</b>	<b>18.0</b>	<b>8.0</b>

Source: Department of Treasury and Finance

### **Bushfire response and preparedness activities, including Victorian Bushfire Royal Commission – actions before the 2009-10 fire season**

#### *Bushfire clean up*

Further funding is provided to the 2009 Victorian bushfires clean up program due to a greater than expected take up of these services by owners of bushfire-affected properties, and to reimburse those owners of bushfire-affected properties who had undertaken the clean up task themselves. Funding of \$13 million was also provided in 2008-09. This funding will protect public health and safety and promote the rebuilding process for bushfire affected communities.

This funding contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

#### *Bushfire research*

Funding is provided for research into bushfire communications, bushfire ratings and indices and the effect of fuel age on fire behaviour.

This initiative contributes to the Department of Justice's Emergency Management Capability output.

#### *Community education and behavioural change campaign*

Funding is provided to the Country Fire Authority for community education and a behavioural change campaign to prepare communities for the fire season.

This initiative contributes to the Department of Justice's Emergency Management Capability output.

#### *Emergency Services Telecommunications Authority surge capacity*

Funding is provided for additional capacity at the Emergency Services Telecommunications Authority's Ballarat communication centre. This will improve triple zero call taking and dispatch capability during peak periods of demand.

This initiative contributes to the Department of Justice's Emergency Management Capability output.

#### *Fire season preparedness activities*

Funding is provided for preparation activities to manage fires on public land in response to predictions of the potential severity of the coming fire season. Actions include: hiring additional project fire fighters; hiring of an additional air crane helicopter; extension of contracted flying hours for water bombing aircraft; community awareness and engagement programs; and additional fuel reduction burning.

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

#### *Identification of high risk bushfire zones*

Funding is provided to the Country Fire Authority to identify and establish neighbourhood safer places in high bushfire risk areas. This includes supporting councils to develop fire risk registers and township protection plans.

This initiative contributes to the Department of Justice's Emergency Management Capability output.

#### *Municipal Association of Victoria bushfire preparations*

This initiative assists local councils to develop township protection plans and Neighbourhood Safe Places identified as key recommendations in the interim findings of the *Royal Commission Interim Report* into the 2009 Victorian bushfires.

This initiative contributes to the Department of Planning and Community Development's Developing the Local Government Sector output.

#### *National emergency warning system*

Funding is provided for a public awareness and education campaign to accompany the introduction of a national emergency warning system. The establishment of the system is being led by Victoria on behalf of other jurisdictions.

This initiative contributes to the Department of Justice's Emergency Management Capability output.

#### *Outer suburban fire protection*

Funding is provided for fire protection works to help safeguard communities and assets from bushfire attack in Melbourne's outer suburban areas. An additional 15 fire management staff will conduct planned fuel reduction burning and undertake community education and engagement activities.

This initiative contributes to the Department of Sustainability and Environment's Forests and Parks output.



#### *Pre-established incident control centres*

Funding is provided to the Country Fire Authority and the Department of Sustainability and Environment to upgrade 38 Incident Control Centres, including additional ICT hardware and software facilities. Funding is also provided for a fire detection line scanner to enable fast and reliable transmission of critical incident data.

This initiative contributes to the Department of Justice's Emergency Management Capability output and the Department of Sustainability and Environment's Land and Fire Management output.

#### *Pre-formed incident management teams*

Funding is provided to increase the number and capacity of pre-formed Incident Management Teams on extreme fire danger days by engaging international specialists (incident controllers, meteorologists and fire behaviour specialists) during the critical summer period.

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

#### *Rural fire stations program – Stage 1*

Funding is provided to replace or upgrade 60 Country Fire Authority rural fire stations over the next two years. This includes four fire stations in the Murrindindi area, which was severely affected by the 2009 Victorian bushfires.

This initiative contributes to the Department of Justice's Emergency Management Capability output.

#### *Single bushfire website*

Funding is provided to establish a single website to improve accessibility and behind the scenes performance, with same time uploads to integrate the Country Fire Authority and Department of Sustainability and Environment websites. This website will be the main source of bushfire real time information.

This initiative contributes to the Department of Justice's Emergency Management Capability output.

#### *Strategic fuel breaks*

Funding is provided to complete 173 kilometres of fuel breaks, outside of emergency conditions, to enable a more strategic approach to the location of fuel breaks and consideration of environmental and biodiversity impacts.

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

#### *Upgrade of intelligence gathering analysis and alerting capability*

Funding is provided for equipment and additional ground observers and fire behaviour analysts to improve intelligence and information flows during an incident. Funding is also provided for the development of a common alerting protocol.

This initiative contributes to the Department of Justice's Emergency Management Capability output.

*Vegetation management – private land, roadsides and rail corridors*

Funding is provided to the Country Fire Authority to assist local councils and major landowners with planned burning operations and provide advice to private landholders regarding vegetation management on private land, including roadsides and rail corridors.

This initiative contributes to the Department of Justice's Emergency Management Capability output.

*VicForests fire salvage program*

Funding is provided to VicForests to undertake a comprehensive timber salvage and recovery program in order to optimise the value recovered for fire-affected timber resources and assist in the economic recovery of communities in the Central Highlands region following the 2009 Victorian bushfires. Works include salvage harvesting of burnt timber, log storage, road repairs and forest regeneration activities.

This initiative contributes to the Department of Treasury and Finance's Land and Infrastructure Investment Management output.

*Victorian bushfire information line*

Funding is provided to extend this service to provide additional surge capacity for the Bushfire Information Line to meet caller demand on days of extreme fire risk.

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

**Drought response**

*Drought Apprenticeship Retention Bonus*

Funding is provided to continue grants of \$1 500 for each apprentice in 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 communications*

Funding is provided to inform farmers and communities about available drought assistance and to facilitate access to programs and services.

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

### *Drought extension support*

Funding has been allocated to continue this program which provides advice, information and tools to assist farm businesses in the northern irrigation region to make informed decisions about their future. The program includes a focus on the dairy industry.

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

### *Farm improvement grant*

Funding has been provided for co-investment grants to eligible farmers receiving Exceptional Circumstances Relief Payments. In the northern irrigation region two to one co-investment grants of \$2 000 are available and in the rest of Victoria one to one grants of \$1 000. This program supports fixed on farm infrastructure upgrades or capital improvements.

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

### *Intensive transition support services*

Funding has been allocated to intensive and personalised case management services to farmers accessing Rural Financial Counselling Services in northern Victoria. This program supports farmers to make sound decisions about their future.

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

### *Municipal rate subsidy*

Funding has been provided for a subsidy of up to 30 per cent on municipal rates and charges payable to eligible farmers who receive Exceptional Circumstances Relief Payments.

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

### *VicRelief and Foodbank*

Funding has been allocated to social support agencies VicRelief and Foodbank to provide items such as food and other household necessities to families in drought-affected communities.

This initiative contributes to the Department of Human Services' Concessions to Pensioners and Beneficiaries output.

### *Water rate rebate*

Funding has been provided 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 2009. In addition, those whose fixed charge component of their water bill is more than \$1 000 will receive an additional 50 per cent rebate on the balance.

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

### **Drought contribution levy**

In recognition of the exceptional circumstances created by the ongoing drought, a Drought Contribution Levy has been applied to existing appropriations for all departments. This levy enables the implementation of a further package of drought assistance decisions, as outlined throughout this Appendix.

### **A statewide plan for bushfire reconstruction and recovery**

#### *Agribusiness*

This initiative provides funding for a program to support the physical, mental and wellbeing of farmers and their families.

This initiative contributes to the Department of Primary Industries' Primary Industries Policy output.

#### *Builder technical support and advice*

This initiative provides technical support for builders and residents to understand and apply the new building regulations; a program of Bushfire Attack Level Assessments to support residents to understand the construction requirements applicable to their new homes; and the development of a construction industry volunteer program focused on rebuilding minor community assets.

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

#### *Business recovery package*

Funding is provided for a program to assist small to medium businesses to return to pre-fire operating levels. Program elements will include: individual business mentoring and group workshops covering a broad range of business operational issues; 'buy local' activities; and community/township business events.

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

#### *Callignee Community Centre*

This initiative provides funding to replace Callignee Hall, Old Callignee School and the Callignee Country Fire Authority Shed, which were destroyed in the 2009 Victorian bushfires, with a multipurpose facility incorporating a community hall, playschool, Country Fire Authority storage area and sports changing rooms.

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

#### *Children, youth and families – educational resources*

This initiative provides additional administration and support staff for schools in bushfire affected areas, including additional relief teachers to allow permanent staff to attend training courses.

This initiative contributes to the Department of Education and Early Childhood Development's Early Years (schools), Middle Years (schools), and Later Years and Youth Transitions outputs.

*Community engagement and communications*

Funding is provided for communications and community engagement functions including the continued employment of staff who provide an important communication channel by liaising between the Victorian Bushfire Reconstruction and Recovery Authority (VBRRA), local community organisations and councils to assess needs and provide advice. Funding is also provided for community planning days and to manage the distribution of donated goods.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

*Community service hubs*

Funding is provided to continue the operations of community service hubs in the 10 most fire affected areas, providing a joint Commonwealth and State one-stop shop for government and other services. The hubs will serve as a central point of reference for information, support and interaction in the community.

This initiative contributes to the Department of Human Services' Concessions to Pensioners and Beneficiaries output.

*Corporate operations – VBRRA*

Funding is provided for corporate operations including monitoring and reporting on the delivery of the Statewide Reconstruction and Recovery Plan, ongoing management of the donations management system, rent for the Clayton warehouse and distribution centre, and higher overheads as a result of greater demands on VBRRA than were anticipated at the time of the *2009-10 Budget*.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

*Emergency stabilisation works*

Funding is provided for the rehabilitation of fire breaks, assessment of hazards including dangerous trees, and repair of water infrastructure. Funding includes tree risk assessments on public land and roadsides and emergency works to control erosion and protect water quality.

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

*Expanding tourism options – recreational fishery*

This initiative provides funding to encourage recreational fishers to return to fire damaged areas by re-stocking waterways.

This initiative contributes to the Department of Primary Industries' Primary Industries Policy output.

### *Farmland stabilisation*

This initiative provides funding for assistance with planning of stock containment areas to limit soil erosion from stock on bare ground, and provides services and information to new land holders to ensure compliance of responsibilities as rural landholders. It also assists with fire recovery and the co-ordination of volunteer fencing program, including provision of contractors to enable more efficient use of volunteers.

This initiative contributes to the Department of Primary Industries' Sustainable Practice Change and Primary Industries Policy outputs.

### *Financial assistance*

This initiative provides additional funding for personal hardship grants, and provides support for the administration of the Victorian Bushfire Appeal Fund as well as secretariat support for the Victorian Bushfire Appeal Fund Independent Advisory Panel.

This initiative contributes to the Department of Human Services' Concessions to Pensioners and Beneficiaries output.

### *Health and psychosocial service*

This initiative provides funding for the Red Cross Outreach Program.

This initiative contributes to the Department of Human Services' Concessions to Pensioners and Beneficiaries output.

### *Housing, accommodation and support service*

This initiative will continue the provision of accommodation services in fire affected areas. Funding is provided for tenancy management, maintenance of temporary accommodation and management of temporary villages.

This initiative contributes to the Department of Human Services' Homelessness Assistance and Longer Term Housing Assistance output and the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

### *Implementation and project management*

Funding is provided for project management, including the contracting of staff to manage and coordinate the recovery effort across communities, to project manage VBRRR-run reconstruction tasks, and to pay for the logistics contract with Toll who transports goods to affected communities.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

### *Increasing local government capacity*

This initiative provides funding for staffing resources to help those local councils most severely impacted by the 2009 Victorian bushfires to meet the needs of their communities in implementing the bushfire reconstruction program.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

### *Land and water management*

This initiative provides support for works by Catchment Management Authorities to protect water quality through the reduction of fire debris and the rehabilitation of environmental and built assets.

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

### *Marysville community learning, health and recreation hub*

Additional funding is provided to rebuild core community facilities that were destroyed in the 2009 Victorian bushfires. Facilities will include a primary school, children's centre, multi-purpose shared facility, community health centre, and recreation hall. There is also funding for a Township Urban Design Schema that will provide more detailed design for public realm works that are scheduled to commence in autumn 2010.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

### *Middle Kinglake education and community recreation precinct*

Funding is provided to rebuild core community facilities that were destroyed in the 2009 Victorian bushfires. Facilities will include a primary school, early childhood centre, community rooms, road works and car parking, tennis/netball courts and oval lighting.

This initiative contributes to the Department of Education and Early Childhood Development's Early Childhood Education and Care, Early Years (schools) and Middle Years (school) outputs, the Department of Planning and Community Development's Sport and Recreation Development output, and the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

### *Pest plant and animal biosecurity*

This initiative provides funding for community awareness activities, surveillance of high priority weeds, emergency response/recovery plans for animal welfare, and restoring damaged emergency plant pest surveillance systems.

This initiative contributes to the Department of Primary Industries' Sustainable Practice Change and Primary Industries Policy outputs.

### *Rebuilding advisory service*

Funding is provided for a service to assist individual residents in the re-building of their dwellings. The initiative will provide a source library of methods, designs and materials, and access to individuals with house building expertise.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

### *Rehabilitation of threatened species*

Funding is provided for the rehabilitation of threatened species (Galaxius fish and Leadbeaters possum), control of pests and weeds, and regeneration of severely burnt forest.

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

### *The new Lake Mountain experience*

Funding is provided to support the re-establishment of key winter infrastructure on Lake Mountain with expanded capacity and functionality, and to extend the summer season to encourage more tourists to the area.

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

### **Rooming houses**

Funding is provided to implement the recommendations of the Rooming House Standards Taskforce.

The package includes a range of initiatives to: improve standards in rooming houses; improve compliance and enforcement activities; implement a new registration system for rooming house operators; and increase affordable accommodation options for people in rooming houses, in particular families with children.

This initiative contributes to the Department of Human Services' Homelessness Assistance and Long Term Housing Assistance outputs and the Department of Justice's Promoting and Protecting Consumer Interests output.

### **Asset Initiatives**

**Table A.2: Asset initiatives – government-wide**

	<i>(\$ million)</i>			
	2009-10	2010-11	2011-12	2012-13
<b>Bushfire response and preparedness activities</b>				
Emergency Services Telecommunications Authority surge capacity	0.2	..	..	..
Emergency State Control Centre	2.3	..	..	..
Pre-established incident control centres	15.1	..	..	..
Rural fire stations program – Stage 1	11.3	11.3	..	..
<b>Statewide plan for bushfire reconstruction and recovery</b>				
Economic infrastructure: roads and transport	8.7	..	..	..
Expanding tourism options	0.2	..	..	..
Flowerdale early years facility	1.5	..	..	..
Marysville community learning, health and recreation hub	3.0	..	..	..
Marysville police station and residence	0.4	1.8	0.2	..
Middle Kinglake education and community recreation precinct	1.7	..	..	..
National Parks and state forests sites	5.4	..	..	..
Purchase of the Marysville Motor Museum site	1.2	..	..	..



**Table A.2: Asset initiatives – government wide (continued)**

	(\$ million)			
	2009-10	2010-11	2011-12	2012-13
Rebuilding advisory centres	0.5	..	..	..
Replacement of key Crown-owned community assets	17.8	1.0	..	..
Strathewen Primary School	0.5	..	..	..
The new Lake Mountain experience	8.3	..	..	..
<b>Total asset initiatives</b>	<b>78.0</b>	<b>14.1</b>	<b>0.2</b>	<b>..</b>

Source: Department of Treasury and Finance

### **Bushfire response and preparedness activities, including Victorian Bushfire Royal Commission – actions before the 2009-10 fire season**

#### *Emergency Services Telecommunications Authority surge capacity*

Refer to the output initiative for a description of this initiative.

#### *Emergency State Control Centre*

Funding is provided to further integrate telephony and data systems, co-locate key functions and fit out additional space within the centre to accommodate up to 150 people working around the clock.

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

#### *Pre-established incident control centres*

Refer to the output initiative for a description of this initiative.

#### *Rural fire stations program – Stage 1*

Refer to the output initiative for a description of this initiative.

### **A statewide plan for bushfire reconstruction and recovery**

#### *Economic infrastructure: roads and transport*

Funding is provided to repair road infrastructure including drainage, guardrails, fencing, guideposts, and line marking.

This initiative contributes to the Department of Transport's Road Asset Management output.

#### *Expanding tourism options*

This initiative provides funding for Parks Victoria to assist with the reinvigoration of tourism and visitor facilities in bushfire affected areas.

This initiative contributes to the Department of Sustainability and Environment's Forests and Parks output.

#### *Flowerdale early years facility*

Additional funding is provided to rebuild the kindergarten in Flowerdale in collaboration with local government, and to co-locate it with the local primary school.

This initiative contributes to the Department of Education and Early Childhood Development's Early Childhood Education and Care output.

*Marysville community learning, health and recreation hub*

Refer to the output initiative for a description of this initiative.

*Marysville police station and residence*

Funding is provided to rebuild the Marysville police station and residence which were destroyed in the 2009 Victorian bushfires.

This initiative contributes to the Department of Justice's Policing Services output.

*Middle Kinglake education and community recreation precinct*

Refer to the output initiative for a description of this initiative.

*National Parks and state forests sites*

Funding is provided to restore infrastructure in Kinglake National Park icon sites, office, depot and visitor centre; Toorourong Reservoir Park; Cathedral Range State Park and other State Park infrastructure.

This initiative contributes to the Department of Sustainability and Environment's Forests and Parks output.

*Purchase of the Marysville Motor Museum site*

Funding is provided for the purchase of the former car museum site in Marysville to establish a temporary market and retail precinct to attract businesses back to the town. The centre will provide retail and business facilities such as a supermarket, banking service, post office and newsagent. The site will provide retail facilities for two to three years and will then be designated for community use.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

*Rebuilding advisory centres*

Funding is provided for the construction of two fixed display and meeting centres at Marysville and Kinglake, which will provide a 'one stop shop' for people rebuilding.

This initiative contributes to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output.

*Replacement of key Crown-owned community assets*

Funding is provided to rebuild the Marysville Caravan Park, Kinglake Ranges Wilderness Camp, Pomborneit Recreation Ground, Steavenson Falls, Grand Ridge Rail Trail, recreational assets, road network infrastructure and for the clean up of fire affected areas.

This initiative contributes to the Department of Sustainability and Environment's Land and Fire Management and Forests and Parks outputs.

*Strathewen Primary School*

Additional funding is provided for the replacement of Strathewen Primary School, which was destroyed in the 2009 Victorian bushfires.

This initiative contributes to the Department of Education and Early Childhood Development's Early Years (schools) and Middle Years (schools) output.

*The new Lake Mountain experience*

Refer to the output initiative for a description of this initiative.

## DEPARTMENTAL INITIATIVES

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

### EDUCATION AND EARLY CHILDHOOD DEVELOPMENT

#### *Output initiatives*

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

	<i>(\$ million)</i>			
	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
National Partnership for Youth Attainment and Transitions	8.5	17.0	17.0	17.0
Continued support for non-government schools	17.5	35.0	60.0	87.5
<b>Sub-total output initiatives</b>	<b>26.0</b>	<b>52.0</b>	<b>77.0</b>	<b>104.5</b>
Government-wide initiatives	6.2	1.6	..	..
<b>Total output initiatives</b>	<b>32.2</b>	<b>53.6</b>	<b>77.0</b>	<b>104.5</b>

*Source: Department of Treasury and Finance*

#### **National Partnership for Youth Attainment and Transitions**

This initiative provides State and Commonwealth funding through the National Partnership on Youth Attainment and Transitions, which aims to increase participation of young people in education and training, increase attainment levels, and improve successful transitions from school.

This initiative contributes to the Department of Education and Early Childhood Development's Later Years and Youth Transitions output.

#### **Continued support for non-government schools**

This initiative continues the Government's commitment to provide assistance to non-government schools, to improve educational opportunities for students and target programs for students with disabilities and those from disadvantaged backgrounds. Funding will ensure students in all schools across the state have access to high quality education. All schools will be required to participate in the transparency and accountability agenda released recently in the Government's blueprint implementation paper.

This initiative contributes to the Department of Education and Early Childhood Development'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)				
	2009-10	2010-11	2011-12	2012-13	TEI
Modernisation	5.0	11.0	..	..	16.0
Regeneration	..	25.4	29.7	..	55.1
School improvement projects	12.3	20.7	..	..	33.0
<b>Sub-total asset initiatives</b>	<b>17.3</b>	<b>57.1</b>	<b>29.7</b>	<b>..</b>	<b>104.1</b>
Government-wide initiatives	6.5	..	..	..	6.5
<b>Total asset initiatives</b>	<b>23.8</b>	<b>57.1</b>	<b>29.7</b>	<b>..</b>	<b>110.5</b>

Source: Department of Treasury and Finance

### Modernisation

Funding is provided to bring forward priority modernisation works at Flemington Primary School, Montmorency South Primary School, Parkdale Primary School, Frankston Heights Primary School, Burwood Heights Primary School, and Belmont Primary School.

This initiative contributes to the Department of Education and Early Childhood Development's Early Years (schools) and Middle Years (schools) outputs.

### Regeneration

Funding is provided for precinct developments through the regeneration of facilities and education projects, which have been determined by local school communities. This funding leverages *Building the Education Revolution* funding to maximise project scope for the schools involved.

This initiative contributes to the Department of Education and Early Childhood Development's Early Years (schools), Middle Years (schools) and Later Years and Later Youth Transitions outputs.

### School improvement projects

Funding is provided for school improvement projects to complement *Building the Education Revolution* investment. Funding will support smaller infrastructure projects, including covered outdoor areas and priority refurbishment projects.

This initiative contributes to the Department of Education and Early Childhood Development's Early Years (schools), Middle Years (schools) and Later Years and Later Youth Transitions outputs.

## HEALTH

### Asset Initiatives

**Table A.5: Asset initiatives – Health**

	(\$ million)				
	2009-10	2010-11	2011-12	2012-13	TEI
Bass Coast Wonthaggi Hospital – emergency upgrade	2.5	0.5	..	..	3.0
Parkville Comprehensive Cancer Centre <sup>(a)(b)</sup>	6.3	105.6	197.1	434.3	1 071.2
<b>Total asset initiatives</b>	<b>8.8</b>	<b>106.1</b>	<b>197.1</b>	<b>434.3</b>	<b>1 074.2</b>

Source: Department of Treasury and Finance

*Notes:*

- (a) The Parkville Comprehensive Cancer Centre includes a \$426.1 million contribution from each of the State and Commonwealth Governments, with the balance funded from third parties' contributions.
- (b) The TEI for this initiative includes funding of \$327.9 million beyond 2012-13.

#### **Bass Coast Wonthaggi Hospital – emergency upgrade**

Funding is provided to extend the emergency department at Bass Coast Regional Health's Wonthaggi Hospital. The upgrade will provide for at least three additional emergency cubicles and will expand existing clinical space. The upgrade will allow the hospital to better meet expected demand growth.

This initiative contributes to the Department of Health's Admitted Services output.

#### **Parkville Comprehensive Cancer Centre (CCC)**

Funding is provided to develop Victoria's first truly comprehensive cancer centre (CCC) in Parkville. The Parkville CCC will be a world-class centre, purpose designed for best practice cancer care and the sharing of ideas and knowledge by the best minds in cancer research and clinical care. This will translate into the latest cancer treatments, improved access to clinical trials, and the education and improving the skills of Victoria's cancer workforce.

This initiative contributes to the Department of Health's Admitted Services output.

## HUMAN SERVICES

### Output initiatives

**Table A.6: Output initiatives – Human Services**

	(\$ million)			
	2009-10	2010-11	2011-12	2012-13
Responding to critical needs in child protection	11.7	22.7	22.3	20.5
<b>Sub-total output initiatives</b>	<b>11.7</b>	<b>22.7</b>	<b>22.3</b>	<b>20.5</b>
Government-wide initiatives	24.1	19.1	10.6	0.9
<b>Total output initiatives</b>	<b>35.8</b>	<b>41.9</b>	<b>32.9</b>	<b>21.4</b>

Source: Department of Treasury and Finance

### Responding to critical needs in child protection

Funding is provided to deliver a boost to child protection and family services, including additional frontline child protection workers, a specialist intervention team to tackle child protection hot spots and support for children placed with their extended family. This initiative also provides funding for a boost to ChildFIRST services, the appointment of two principal child protection practitioners, a recruitment campaign and additional training for child protection workers.

This initiative contributes to the Department of Human Services' Statutory Child Protection Services; Specialist Support and Placement Services and Family and Community Services outputs.

## INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT

### Output initiatives

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

	(\$ million)			
	2009-10	2010-11	2011-12	2012-13
Additional exemption funding for training places	3.0	..	..	..
Early and coordinated response service	1.4	1.4	..	..
Fee waiver for training places	4.0	..	..	..
Retrenched workers training entitlement	7.4	7.4	..	..
Small business assistance package	1.0	..	..	..
Strengthening Victoria's investment facilitation capacity and reputation	1.0	0.3	0.3	0.3
Thinking global: Victoria's action plan for international education	4.7	3.0	3.0	3.2
Youth compact	14.1	20.7	..	..
<b>Sub-total output initiatives</b>	<b>36.6</b>	<b>32.8</b>	<b>3.3</b>	<b>3.5</b>
Government-wide initiatives	0.6	..	..	..
<b>Total output initiatives</b>	<b>37.2</b>	<b>32.8</b>	<b>3.3</b>	<b>3.5</b>

Source: Department of Treasury and Finance

### **Additional exemption funding for training places**

Funding is provided to respond to increased demand for training from workers who have been made redundant due to the economic downturn.

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

### **Early and coordinated response service**

Funding is provided for a statewide phone and online Retrenched Worker Information Service and the establishment of early response teams.

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

### **Fee waiver for training places**

Funding is provided to enable training providers to waive fees for job seekers who meet certain criteria, in order for the Victorian Government to meet commitments to the Commonwealth under the *Intergovernmental Agreement for additional training delivery in Victoria under the Productivity Places Program*.

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

### **Retrenched workers training entitlement**

Funding is provided to guarantee training places for retrenched workers who seek access to training programs.

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

### **Small business assistance package**

Funding is provided for initiatives to assist small and medium enterprises during the economic downturn. Initiatives include; business road shows, implementation of fair payment policy, extending access to the construction supplier register to local councils, and the development of a system to alert industry associations of tenders.

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

### **Strengthening Victoria's investment facilitation capacity and reputation**

Funding is provided to strengthen Victoria's investment facilitation capacity and ensure greater coordination across government in response to the economic downturn.

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



## Thinking global: Victoria's action plan for international education

Funding is provided to enhance Victoria's attractiveness as an international study destination and to fund initiatives within the *Thinking global: Victoria's action plan for international education*. The plan covers initiatives that support and grow Victoria's international education sector and improve the experience, safety and wellbeing of overseas students living and studying in Victoria.

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

### Youth compact

Funding is provided to enable the implementation of the training entitlement agreed as part of the Council of Australian Government's (COAG) *Compact with Young Australians* (Youth Compact).

The Youth Compact will apply for 15 to 19 year olds from 1 July 2009 and for 20 to 24 year olds from 1 January 2010.

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

## JUSTICE

### Output initiatives

Table A.8: Output initiatives – Justice

	(\$ million)			
	2009-10	2010-11	2011-12	2012-13
Additional police	7.8	12.2	13.0	13.8
Victoria Police – Safe Streets	2.8	..	..	..
<b>Sub-total output initiatives</b>	<b>10.6</b>	<b>12.2</b>	<b>13.0</b>	<b>13.8</b>
Government-wide initiatives	31.7	0.6	1.1	1.5
<b>Total output initiatives</b>	<b>42.2</b>	<b>12.8</b>	<b>14.2</b>	<b>15.3</b>

Source: Department of Treasury and Finance

### Additional police

Funding is provided for the recruitment of an additional 120 full time police officers. The funding will enable the deployment of additional officers to the Victoria Police Operational Response Unit and to Operation Razon focusing on liquor licensing.

This initiative contributes to the Department of Justice's Policing Services output.

### Victoria Police – Safe Streets

Funding is provided to Victoria Police to continue the Safe Streets initiative. The funding will be used for the extra tasking of members on overtime to target trouble spots across Victoria.

This initiative contributes to the Department of Justice's Policing Services output.

**Table A.9: Asset initiatives – Justice**

	(\$ million)				
	2009-10	2010-11	2011-12	2012-13	TEI
Government-wide initiatives	20.2	13.1	0.2	..	33.5
<b>Total asset initiatives</b>	<b>20.2</b>	<b>13.1</b>	<b>0.2</b>	<b>..</b>	<b>33.5</b>

Source: Department of Treasury and Finance

## PLANNING AND COMMUNITY DEVELOPMENT

### Output initiatives

**Table A.10: Output initiatives – Planning and Community Development**

	(\$ million)				
	2009-10	2010-11	2011-12	2012-13	
Local government Inspectorate	2.4	2.2	1.9	1.7	
MCG Southern Stand redevelopment and Yarra Park landscaping	..	10.0	20.0		
<b>Sub-total output initiatives</b>	<b>2.4</b>	<b>12.2</b>	<b>21.9</b>	<b>1.7</b>	
Government-wide initiatives	3.2	0.3	..	..	
<b>Total output initiatives</b>	<b>5.6</b>	<b>12.6</b>	<b>21.9</b>	<b>1.7</b>	

Source: Department of Treasury and Finance

### Local Government Inspectorate

Funding is provided for the Local Government Investigations and Compliance Inspectorate, to be headed by a Chief Municipal Inspector. The Inspectorate will strengthen government's ability to prosecute any breaches of *Local Government Act 1989* and create an administrative structure for investigation consistent with the independence of the functions.

This initiative contributes to the Department of Planning and Community Development's Developing the Local Government Sector output.

### MCG Southern Stand redevelopment and Yarra Park landscaping

Funding is provided as a contribution to the refurbishment of the Melbourne Cricket Ground's Great Southern Stand and Yarra Park landscaping.

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

## Asset initiatives

**Table A.11: Asset initiatives – Planning and Community Development**

	(\$ million)				TEI
	2009-10	2010-11	2011-12	2012-13	
MCG Southern Stand redevelopment and Yarra Park landscaping	..	2.0	2.0	2.0	6.0
<b>Total asset initiatives</b>	<b>..</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>6.0</b>

Source: Department of Treasury and Finance

### MCG Southern Stand redevelopment and Yarra Park landscaping

Refer to the output initiative for a description of this initiative.

## PREMIER AND CABINET

### Output initiatives

**Table A.12: Output initiatives – Premier and Cabinet**

	(\$ million)				TEI
	2009-10	2010-11	2011-12	2012-13	
Walk for Harmony	0.1	..	..	..	..
<b>Sub-total output initiatives</b>	<b>0.1</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>
Government-wide initiatives	38.9	1.9	..	..	..
<b>Total output initiatives</b>	<b>38.9</b>	<b>1.9</b>	<b>..</b>	<b>..</b>	<b>..</b>

Source: Department of Treasury and Finance

### Walk for Harmony

Funding is provided to stage the Walk for Harmony to demonstrate Victoria's successful approach to multiculturalism.

This initiative contributes to the Department of Premier and Cabinet's Multicultural Affairs output.

### Asset Initiatives

**Table A.13: Asset initiatives – Premier and Cabinet**

	(\$ million)				TEI
	2009-10	2010-11	2011-12	2012-13	
Government-wide initiatives	1.9	..	..	..	1.9
<b>Total asset initiatives</b>	<b>1.9</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>1.9</b>

Source: Department of Treasury and Finance

## PRIMARY INDUSTRIES

### *Output initiatives*

**Table A.14: Output initiatives – Primary Industries**

	(\$ million)			
	2009-10	2010-11	2011-12	2012-13
Brown Coal Innovation Australia	4.0	4.0	4.0	4.0
European house borer and electric ant eradication programs	0.6	..	..	..
Victoria's carbon capture and storage (CCS) program – CCS flagships project pre-feasibility studies	3.3	..	..	..
<b>Sub-total output initiatives</b>	<b>7.9</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
Government-wide initiatives	29.2	0.5	0.5	0.4
<b>Total output initiatives</b>	<b>37.1</b>	<b>4.5</b>	<b>4.5</b>	<b>4.4</b>

*Source: Department of Treasury and Finance*

#### **Brown Coal Innovation Australia**

Funding has been allocated to establish Brown Coal Innovation Australia to support low emission brown coal research and development. This new body will engage with the Commonwealth Government's National Low Emissions Coal Council.

This initiative contributes to the Department of Primary Industries' Strategic and Applied Scientific Research output.

#### **European house borer and electric ant eradication programs**

This funding represents Victoria's contribution for inter-jurisdictional cost sharing arrangements relating to European house borer and electric ant eradication programs.

This initiative contributes to the Department of Primary Industries' Regulation and Compliance output.

#### **Victoria's carbon capture and storage (CCS) program – CCS flagships project pre-feasibility studies**

Funding has been allocated to conduct pre-feasibility work on potential CCS demonstration projects to be considered as part of the Australian Government's CCS Flagships program.

This initiative contributes to the Department of Primary Industries' Strategic and Applied Scientific Research output.

## SUSTAINABILITY AND ENVIRONMENT

### Output initiatives

**Table A.15: Output initiatives – Sustainability and Environment**

	(\$ million)			
	2009-10	2010-11	2011-12	2012-13
Grassland reserves to protect endangered species	0.5	2.5	3.0	4.0
Solar hot water rebates for rural and regional Victoria	10.0	..	..	..
Weed control on the urban fringe	1.0	1.0	1.0	1.0
<b>Sub-total output initiatives</b>	<b>11.5</b>	<b>3.5</b>	<b>4.0</b>	<b>5.0</b>
Government-wide initiatives	70.6	5.3	5.3	5.3
<b>Total output initiatives</b>	<b>82.1</b>	<b>8.8</b>	<b>9.3</b>	<b>10.3</b>

*Source: Department of Treasury and Finance*

#### **Grassland reserves to protect endangered species**

Funding is provided to protect one of Victoria's most endangered ecosystems through the acquisition of 15 000 hectares of native volcanic plains grasslands to offset the impact of further urban growth in Melbourne's western area. Funding is also provided to Parks Victoria to establish and maintain the grassland reserves.

This initiative contributes to the Department of Sustainability and Environment's Forests and Parks and Biodiversity outputs.

#### **Solar hot water rebates for rural and regional Victoria**

Funding is provided to extend the solar hot water rebate program until 31 December 2009 for residents in rural and regional areas with rebates also made available for up to 610 non-electric systems for households rebuilding after the 2009 Victorian bushfires.

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

#### **Weed control on the urban fringe**

Funding is provided for a dollar-for-dollar grant program for outer suburban councils to reduce the spread of weeds on public land. The weed control program will be targeted at areas of environmental significance and of high value to the community.

This initiative contributes to the Department of Sustainability and Environment's Forests and Parks output.

## Asset initiatives

**Table A.16: Asset initiatives – Sustainability and Environment**

	(\$ million)				
	2009-10	2010-11	2011-12	2012-13	TEI
Grassland reserves to protect endangered species <sup>(a)</sup>	10.0	20.0	20.0	20.0	190.0
<b>Sub-total asset initiatives</b>	<b>10.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>190.0</b>
Government-wide initiatives	40.7	1.0	..	..	41.7
<b>Total asset initiatives</b>	<b>50.7</b>	<b>21.0</b>	<b>20.0</b>	<b>20.0</b>	<b>231.7</b>

Source: Department of Treasury and Finance

Note:

(a) The TEI includes funding of \$120 million from 2013-14 to 2018-19.

### Grassland reserves to protect endangered species

Refer to the output initiative for a description of this initiative.

## TRANSPORT

### Output initiatives

**Table A.17: Output initiatives – Transport**

	(\$ million)				
	2009-10	2010-11	2011-12	2012-13	
New metropolitan rail contracts <sup>(a)</sup>	140.4	69.1	55.6	9.7	
<b>Total output initiatives</b>	<b>140.4</b>	<b>69.1</b>	<b>55.6</b>	<b>9.7</b>	

Source: Department of Treasury and Finance

Note:

(a) Part of the funding associated with this initiative may be transferred from output to asset.

### New metropolitan rail contracts

New operators for Melbourne's metropolitan train and tram networks will present significant value for Victorian taxpayers, deliver more jobs for Victorian people, and deliver an improved transport system.

The new contracts include an improved performance regime for operators, addressing a wider range of passenger needs and improved reliability of fleet supported by an increased investment in infrastructure maintenance.

This initiative contributes to the Department of Transport's Integrated Metropolitan Public Transport Services output.

## Asset Initiatives

**Table A.18: Asset initiatives – Transport**

	(\$ million)				
	2009-10	2010-11	2011-12	2012-13	TEI
Colac-Lavers Hill Road improvement project <sup>(a)</sup>	7.5	1.5	..	..	15.0
Dandenong intermodal terminal	2.0	8.0	8.0	..	18.0
Intermodal terminal development	0.8	..	..	..	0.8
Melbourne metro – new rail tunnel planning and development – Stage 1	10.0	20.0	10.0	..	40.0
Peninsula Link <sup>(b)(c)</sup>	72.7	119.9	114.5	42.1	354.3
Port of Hastings development	2.0	..	..	..	2.0
Regional rail link <sup>(d)(e)</sup>	42.0	510.0	863.0	1 389.0	4 300.0
Somerton intermodal terminal	1.0	5.0	10.0	4.0	20.0
Tram driver air conditioning <sup>(f)</sup>	4.9	..	..	..	8.8
<b>Sub-total assets initiatives</b>	<b>142.9</b>	<b>664.4</b>	<b>1 005.5</b>	<b>1 435.1</b>	<b>4 758.9</b>
Government-wide initiatives	8.7	..	..	..	8.7
<b>Total asset initiatives</b>	<b>151.6</b>	<b>664.4</b>	<b>1 005.5</b>	<b>1 435.1</b>	<b>4 767.6</b>

Source: Department of Treasury and Finance

### Notes:

- (a) Initiative includes expenditure of \$6.0 million in 2008-09.
- (b) This project will be delivered via a public private partnership arrangement and final cash flows are yet to be confirmed. The initial investment for this project was reported in the 2009-10 Budget, and the State Government continues to work cooperatively with the Commonwealth Government to secure a funding contribution to deliver this initiative in partnership.
- (c) The TEI includes \$5.2 million outside the forward estimates period.
- (d) This project includes State and Commonwealth commitments of \$1.1 billion and \$3.2 billion respectively. Preliminary project cash flows are identified and final cash flows are to be confirmed following further detailed design work.
- (e) The TEI includes \$1.5 billion beyond 2012-13.
- (f) Initiative includes expenditure of \$3.9 million incurred in 2008-09.

### Colac-Lavers Hill Road improvement project

In partnership with the Commonwealth Government, this initiative includes pavement repairs, additional overtaking opportunities and shoulder sealing along the entire length of the road, from Elliminyt to Lavers Hill. The project will provide greater safety for all traffic users on the road, including tourists, commuters, commercial vehicles and motorcyclists.

This is a *Victorian Transport Plan* initiative and contributes to the Department of Transport's Road Network Improvements output.

### Dandenong intermodal terminal

In partnership with the Commonwealth Government, funding is provided to scope and implement works to support development of a metropolitan freight terminal at Dandenong. This forms part of a program to develop a metropolitan freight terminal network to ensure that the predicted growth in port-related container traffic within Melbourne is handled efficiently and sustainably.

This is a *Victorian Transport Plan* initiative and contributes to the Department of Transport's Freight, Logistics, Ports and Marine Development output.

#### **Intermodal terminal development**

Funding will assist in the development and planning for enhanced interstate intermodal capacity terminal in Melbourne.

This is a *Victorian Transport Plan* initiative and contributes to the Department of Transport's Freight, Logistics, Ports and Marine Development output.

#### **Melbourne metro – new rail tunnel planning and development – Stage 1**

In partnership with the Commonwealth Government, funding is allocated for planning and development activities on the first stage of the East West Rail Tunnel from Dynon in the west and St Kilda Road at Domain. This new underground link will benefit the entire metropolitan rail network by creating more rail track in the inner city.

This is a *Victorian Transport Plan* initiative and contributes to the Department of Transport's Public Transport Infrastructure Development outputs.

#### **Peninsula Link**

This initiative will construct a 25 kilometre, four-lane connection from EastLink at Carrum Downs to the Mornington Peninsula Freeway at Mount Martha. It will unblock congestion in the Frankston area, while reducing traffic congestion in Frankston city and other Peninsula towns, making these areas more attractive to pedestrians and cyclists and allowing development of Frankston as a Central Activities District. The project includes a walking and cycling path alongside the roadway. The project is to be delivered in accordance with the Partnerships Victoria framework. The funding allocated is in addition to the initial investment of \$354 million TEI reported in the 2009-10 Budget, bringing the total capital investment to \$709 million.

This is a *Victorian Transport Plan* initiative and contributes to the Department of Transport's Road Network Improvements output.

#### **Port of Hastings development**

Funding is provided to plan for an expanded port facility at Hastings, aimed at meeting the growth in demand for container, bulk and non-bulk handling capacity in Victoria.

This is a *Victorian Transport Plan* initiative and contributes to the Department of Transport's Freight, Logistics, Ports and Marine Development output.

#### **Regional rail link**

In partnership with the Commonwealth Government, this project will construct a dual track link of up to 50 kilometres from West Werribee to central Melbourne's Southern Cross Station, via Sunshine. This includes construction of a new rail line from Werribee to Deer Park, new stations at Tarneit and Wyndham Vale, and duplication of existing tracks between Sunshine and Kensington. The project will deliver capacity for an extra 9 000 regional and suburban passengers every hour and will allow regional rail services to run express into Melbourne, increasing transport capacity and reliability for Geelong, Ballarat and Bendigo.



This is a *Victorian Transport Plan* initiative and contributes to the Department of Transport's Integrated Metropolitan Public Transport Services and Rural and Regional Public Transport Services outputs.

### **Somerton intermodal terminal**

In partnership with the Commonwealth Government, funding is provided to scope and implement works to support development of a metropolitan freight terminal at Somerton. This forms part of a program to develop a metropolitan freight terminal network to ensure that the predicted growth in port-related container traffic within Melbourne is handled efficiently and sustainably.

This is a *Victorian Transport Plan* initiative and contributes to the Department of Transport's Freight, Logistics, Ports and Marine Development output.

### **Tram driver air conditioning**

Funding is provided to install tram driver cabin air conditioning.

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

## **TREASURY AND FINANCE**

### ***Output initiatives***

**Table A.19: Output initiatives – Treasury and Finance**

	(\$ million)			
	2009-10	2010-11	2011-12	2012-13
Changes to the First Home Owner Grant scheme	- 1.2	- 4.8	- 4.5	- 4.8
<b>Sub-total output initiatives</b>	<b>- 1.2</b>	<b>- 4.8</b>	<b>- 4.5</b>	<b>- 4.8</b>
Government-wide initiatives	14.0	2.1	0.5	..
<b>Total output initiatives</b>	<b>12.8</b>	<b>- 2.7</b>	<b>- 4.0</b>	<b>- 4.8</b>

*Source: Department of Treasury and Finance*

### **Changes to the First Home Owner Grant scheme**

A cap will be applied to the *First Home Owner Grant* upon expiry of the Commonwealth's *First Home Owner Boost* on 31 December 2009. Whilst originally announced at \$600 000, it is now proposed to set the cap at \$750 000.

The First Home Bonus will still be subject to the existing cap threshold of \$600 000.

This initiative contributes to the Department of Treasury and Finance's Revenue Management Services to Government output.

## Asset Initiatives

**Table A.20: Asset initiatives – Treasury and Finance**

	(\$ million)				
	2009-10	2010-11	2011-12	2012-13	TEI
Energy upgrade project – Stage 1	5.0	..	..	..	5.0
<b>Total asset initiatives</b>	<b>5.0</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>5.0</b>

Source: Department of Treasury and Finance

### Energy upgrade project – Stage 1

Funding is provided to implement Stage 1 of an Energy Performance Contracting project, enabling greater energy and water consumption efficiencies to be delivered at 11 government-owned office buildings across the Melbourne CBD and regional Victoria.

This initiative contributes to the Department of Treasury and Finance's Government Services output.

## REVENUE INITIATIVES

**Table A.21: Revenue initiatives**

	(\$ million)				
	2009-10	2010-11	2011-12	2012-13	
Casino licence conditions	5.3	23.5	35.6	39.8	
Liquor licensing fees <sup>(a)</sup>	12.3	15.6	15.2	15.2	
Metropolitan improvement levy	7.4	10.3	12.5	14.7	
<b>Total revenue initiatives</b>	<b>25.0</b>	<b>49.4</b>	<b>63.3</b>	<b>69.7</b>	

Source: Department of Treasury and Finance

Note:

(a) Liquor licensing fees includes application fees (Department of Justice) and renewal fees (State Revenue Office).

### Casino licence conditions

On 12 May 2009, government announced that it had reached an agreement with Crown Melbourne Limited, regarding a package of changes to Crown Casino's licence conditions, including a progressive increase in the tax rate on the Casino's gaming machines and changes to table game arrangements. These estimates take into account the impact of the delay in passage of the legislation through Parliament.

**Liquor licensing fees**

The Government has introduced a risk-based liquor licensing fee structure to recognise the cost of regulating licensed venues. Under the new fee structure, to be introduced from 1 January 2010, licensed venues presenting more risk of harm to the community will pay higher liquor licence fees; with the additional revenue used to recover liquor licence inspection, policing and enforcement activities.

**Metropolitan Improvement Levy**

Revenue from the Metropolitan Improvement Levy will be used to fund a range of improvements to parks, waterways and bays in the Melbourne metropolitan area including the Point Nepean Quarantine Station, Yarra Bend Park, Frankston Reservoir Park and the Dingley chain of parks.



## 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 can include tax-free thresholds, exempting or applying a lower rate, and deductions or rebates 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 categories of tax for the period 2008-09 to 2012-13. The *2009-10 Budget Update* estimate for total tax expenditures for 2009-10 is \$3 131 million, \$235 million higher than the *2009-10 Budget* estimate of \$2 896 million.

**Table B.1: Aggregate tax expenditures (excluding thresholds) by type of tax<sup>(a)</sup>**

	(\$ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
	Estimate	Estimate	Estimate	Estimate	Estimate
Land tax	1 749	1 955	1 875	1 829	1 971
Payroll tax	749	776	802	829	860
Gambling tax	79	79	81	84	87
Motor vehicle taxes	78	82	85	89	93
Other stamp duties	171	208	230	227	230
Congestion levy	31	32	32	33	34
<b>Total estimated tax expenditures<sup>(b)</sup></b>	<b>2 857</b>	<b>3 131</b>	<b>3 106</b>	<b>3 091</b>	<b>3 274</b>

Source: Department of Treasury and Finance

Notes:

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

(b) Totals may not add due to rounding. Most expenditures have been rounded to one decimal place.

## TAX 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, education, health and transportation at a cheaper rate or 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 2009-10 is \$1 231 million, \$31 million lower than the \$1 262 million estimated in the 2009-10 Budget.

**Table B.2: Concessions by category**

	(\$ million)		
	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Energy, municipal rates, water and sewerage	268	279	285
Education	70	71	76
Health	506	522	562
Hardship assistance	23	41	44
Transport	247	256	265
<b>Total for items estimated <sup>(a)</sup></b>	<b>1 115</b>	<b>1 169</b>	<b>1 231</b>

Source: Department of Treasury and Finance

Note:

(a) Totals may not add due to rounding. Most concessions have been rounded to one decimal place.

## APPENDIX C: SENSITIVITY ANALYSIS TABLE

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### INTRODUCTION

The sensitivity analysis estimates the impact of forecast variations to selected economic and financial variables on income, expenses and the net result from transactions. 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, and reverts to grow at the previously forecast rate thereafter. For interest rates, the assumption is that they are one percentage point higher than assumed in the budget year as well as in subsequent years.

The analysis assumes that only one variable varies at a time while all other variables follow their *2009-10 Budget Update* forecast. For example, the increase in consumer prices is not 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 of selected economic indicators being one per cent higher than expected in 2009-10 on general government fiscal results<sup>(a)(b)</sup>**

	(\$ million)			
	2009-10 <i>Estimate</i>	2010-11 <i>Estimate</i>	2011-12 <i>Estimate</i>	2012-13 <i>Estimate</i>
<b>GSP</b>				
Income from transactions	139	148	156	163
Expenses from transactions	5	-3	-11	-20
<b>Net result from transactions</b>	<b>134</b>	<b>151</b>	<b>167</b>	<b>183</b>
Other economic flows	..	..	..	..
<b>Net result</b>	<b>134</b>	<b>151</b>	<b>167</b>	<b>183</b>
<b>Employment</b>				
Income from transactions	47	51	54	57
Expenses from transactions	-1	-4	-8	-11
<b>Net result from transactions</b>	<b>49</b>	<b>55</b>	<b>61</b>	<b>67</b>
Other economic flows	..	..	..	..
<b>Net result</b>	<b>49</b>	<b>55</b>	<b>61</b>	<b>67</b>
<b>Consumer prices<sup>(c)</sup></b>				
Income from transactions	253	258	266	275
Expenses from transactions	97	93	86	79
<b>Net result from transactions</b>	<b>156</b>	<b>164</b>	<b>180</b>	<b>196</b>
Other economic flows	-138	..	..	..
<b>Net result</b>	<b>19</b>	<b>165</b>	<b>181</b>	<b>197</b>
<b>Average weekly earnings</b>				
Income from transactions	53	56	59	63
Expenses from transactions	5	2	-1	-4
<b>Net result from transactions</b>	<b>48</b>	<b>54</b>	<b>60</b>	<b>67</b>
Other economic flows	..	..	..	..
<b>Net result</b>	<b>48</b>	<b>54</b>	<b>60</b>	<b>67</b>
<b>Enterprise bargaining agreements<sup>(d)</sup></b>				
Income from transactions	22	22	23	23
Expenses from transactions	162	207	226	245
<b>Net result from transactions</b>	<b>-140</b>	<b>-185</b>	<b>-203</b>	<b>-221</b>
Other economic flows	-207	..	..	..
<b>Net result</b>	<b>-348</b>	<b>-185</b>	<b>-203</b>	<b>-221</b>
<b>Domestic share prices</b>				
Income from transactions	..	..	..	..
Expenses from transactions	..	-3	-3	-4
<b>Net result from transactions</b>	<b>..</b>	<b>3</b>	<b>3</b>	<b>4</b>
Other economic flows	39	..	..	..
<b>Net result</b>	<b>39</b>	<b>3</b>	<b>3</b>	<b>4</b>
<b>Overseas share prices</b>				
Income from transactions	..	..	..	..
Expenses from transactions	..	-3	-3	-3
<b>Net result from transactions</b>	<b>..</b>	<b>3</b>	<b>3</b>	<b>3</b>
Other economic flows	37	..	..	..
<b>Net result</b>	<b>37</b>	<b>3</b>	<b>3</b>	<b>3</b>



**Table C.1: Impact of selected economic indicators being one per cent higher than expected in 2009-10 on general government fiscal results<sup>(a)(b)</sup> (continued)**

(\$ million)

	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
<b>Property prices</b>				
Income from transactions	42	63	64	67
Expenses from transactions	-1	-6	-10	-14
<b>Net result from transactions</b>	<b>43</b>	<b>69</b>	<b>74</b>	<b>80</b>
Other economic flows	15	..	..	..
<b>Net result</b>	<b>60</b>	<b>71</b>	<b>75</b>	<b>82</b>
<b>Property volumes</b>				
Income from transactions	33	36	36	39
Expenses from transactions	-1	-3	-5	-7
<b>Net result from transactions</b>	<b>34</b>	<b>39</b>	<b>41</b>	<b>46</b>
Other economic flows	..	..	..	..
<b>Net result</b>	<b>34</b>	<b>39</b>	<b>41</b>	<b>46</b>
<b>Interest rates<sup>(e)</sup></b>				
Income from transactions	24	37	37	38
Expenses from transactions	8	116	174	210
<b>Net result from transactions</b>	<b>16</b>	<b>-79</b>	<b>-137</b>	<b>-172</b>
Other economic flows	3596	..	..	..
<b>Net result</b>	<b>3613</b>	<b>-79</b>	<b>-137</b>	<b>-172</b>

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 denotes a higher surplus or lower deficit. Numbers may not balance due to rounding.
- (b) The sensitivity from a 1 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) 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.
- (d) Represents a 1 per cent increase in all government enterprise bargaining agreements.
- (e) 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 increases government revenue, principally from increased goods and services tax (GST) grant revenue and from state taxation revenue. Increased taxation revenue increases the net result from transactions.

In the budget year, the increase in revenue is partly offset by an increase in sales of goods and services expenses through increased supplies and services. However, over the forward estimates, decreased interest costs more than offset the increase in expenses from the sales of goods and services.

### **Sensitivity to employment**

Higher than expected employment is assumed to increase payroll tax revenue, and increase both the net result from transactions and the net result.

### **Sensitivity to consumer prices**

Higher consumer prices are assumed to increase both Commonwealth-sourced revenue and revenue from the sales of goods and services reflecting indexation and changes in other charges. Higher consumer prices are also assumed to increase GST grant revenue as the value of the tax base rises in nominal terms. However, the higher revenue is partly offset by the higher cost of supplies and services, and increases in outlays on grants and transfers. The increase in expenses is limited to the extent that departments can fund it from increased revenue (reflecting the Government's departmental funding arrangements).

Higher consumer prices are assumed to increase the Government's superannuation liability which would adversely affect the net result through an actuarial loss. In subsequent years, the higher superannuation liability also increases the superannuation expense. However, overall, there is a positive impact on the net result from transactions.

### **Sensitivity to average weekly earnings**

Higher than expected average weekly earnings are assumed to increase payroll tax revenue and therefore the net result from transactions and net result. As the Government's enterprise bargaining agreements are assumed to be unchanged in the budget year, the initial increase in expenses is largely due to the purchase of supplies and services.

## **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 aims to maintain the real value of wages and seeks productivity offsets for higher wage outcomes to minimise the risk to the budget.

Higher than expected government enterprise bargaining agreements are assumed to increase employee entitlements and therefore increase expenses from transactions. The increase in expenses is partially offset by increased revenue from indexation arrangements and user charges (which are based on the cost of providing services). Taken together, these factors decrease the net result from transactions.

Increased employee entitlements would increase the value of the superannuation liability and result in an actuarial loss. This would reduce the net result for the budget year. The higher superannuation liability would flow through to an increase in the superannuation expense over the forward estimates.

## **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. Usually, if share prices rise, the profits generated from those investments also rise (or losses reduce) and so the associated income tax equivalents (ITEs) from PFCs generally rise. However, if there have been substantial decreases in share and other asset prices, accumulated carry forward tax losses limit the impact on associated ITEs over the forward estimates.

Higher share prices also reduce the value of the superannuation liability due to the associated increase in superannuation fund assets. Furthermore, the higher than expected level of superannuation fund assets reduces the superannuation expense beyond the budget year, thereby improving the net result from transactions over the forward estimates.

## **Sensitivity to property prices**

Higher than expected property prices increase the net result from transactions through increased collections of stamp duty on land transfer revenue. Additionally, the value of the Government's superannuation liability decreases (due to the increased value of holdings of property in the investment portfolio of superannuation funds) which results in an actuarial gain. This also increases the net result.

Over the forward estimates, higher than expected property prices continue to increase stamp duty on land transfer and land tax revenues. The previous increase in superannuation assets reduces ongoing superannuation expenses which increases the net result from transactions and the net result.

### **Sensitivity to property volumes**

Higher than expected property transaction volumes increase stamp duty on land transfer revenue. This increases the net result from transactions and net result.

### **Sensitivity to interest rates**

Higher than expected interest rates (one percentage point increase across the entire term structure) are assumed to reduce the value of PFC's long-term liabilities. If this raises measured profits through ITEs there will be an associated increase in government revenue. However, this increase in revenue is partly offset by lower PFC dividends and ITEs due to higher borrowing costs. Higher than expected interest rates also increase the borrowing costs of the general government sector.

In the budget year, the higher than expected interest rates reduce the value of the Government's superannuation liability leading to an actuarial gain. However, this is offset by an increase in the annual interest expense on the superannuation liability in the forward estimates. Accordingly, both the net result from transactions and the net result decrease over the forward estimates.

## APPENDIX D: REQUIREMENTS OF THE *FINANCIAL MANAGEMENT ACT 1994*

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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 *2009-10 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 *2009-10 Budget Update***

<i>Relevant section of the Act and corresponding requirement</i>	<i>Location</i>
<b>Sections 23 E-G</b>	
Statement of financial policy objectives and strategies for the year.	Chapter 1, <i>Economic and Fiscal Strategies and Objectives</i>
<b>Sections 23 H-N</b>	
Estimated financial statements for the year comprising:	Chapter 5, <i>Estimated Financial Statements and Notes</i>
<ul style="list-style-type: none"> <li>– an estimated statement of financial performance over the year;</li> <li>– an estimated statement of financial position at the end of the year;</li> <li>– an estimated statement of cash flows for the year; and</li> <li>– a statement of the accounting policies on which these statements are based and explanatory notes.</li> </ul>	(Estimated operating statement, balance sheet, cash flow statement and statement of changes in equity provided as per AASB 1049)
Accompanying statement to estimated financial statements which:	Chapter 2, <i>Economic Conditions and Outlook</i> and Chapter 5, <i>Estimated Financial Statements and Notes</i>
<ul style="list-style-type: none"> <li>– outlines the material economic assumptions used in preparation of the estimated financial statements;</li> </ul>	

**Table D.1: Statements required by the *Financial Management Act 1994* and their location in the *2009-10 Budget Update (continued)***

<i>Relevant section of the Act and corresponding requirement</i>	<i>Location</i>
– discusses the sensitivity of the estimated financial statements to changes in these assumptions;	Appendix C, <i>Sensitivity Analysis Table</i>
– provides an overview of estimated tax expenditures for the financial years covered by the estimated financial statements; and	Appendix B, <i>Tax Expenditures and Concessions</i>
– provides a statement of the risks that may have a material effect on the estimated financial statements.	Chapter 2, <i>Economic Conditions and Outlook</i> ; Chapter 3, <i>Budget Position and Outlook</i> ; and Chapter 7, <i>Contingent Assets and Contingent Liabilities</i>

## STYLE CONVENTIONS

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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:

n.a. or na	not available or not applicable
1 billion	1 000 million
1 basis point	0.01 per cent
..	zero, or rounded to zero
tbd	to be determined
ongoing	continuing output, program, project etc
(xxx.x)	negative numbers





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