

Mid-Year Budget Review

1999-2000



Presented by

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Treasurer of the State of Victoria

for the information of Honourable Members

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STYLE CONVENTIONS

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage changes in all tables are based on the underlying unrounded amounts.

The notation used in the tables and charts is as follows:

LHS	left-hand-side
RHS	right-hand-side
s.a.	seasonally adjusted
n.a.	not available or not applicable
Cat. No.	catalogue number
1 billion	1 000 million
1 basis point	0.01 per cent

SECTION 1: THE ACCOUNTABILITY FRAMEWORK

- The Government uses a comprehensive budget planning, monitoring and reporting cycle to analyse the provision of services and use of resources.
- Further financial accountability reforms, including financial responsibility legislation and quarterly budget reporting, will be implemented to improve the quality and extent of published financial and other information.
- The Government will also improve the year-to-year consistency of financial and other information to enable greater comparability and reconciliation of performance over time.

The *Mid-Year Budget Review* provides the first opportunity to demonstrate the Government's commitment to greater accountability and transparency in reporting the operations of the State. It also provides an opportunity to set out plainly the cycle of resource allocation. Accountability of the public sector to the Government and accountability of the Government to Parliament is dependent on a clear understanding by all parties of their roles and the processes through which information and decisions flow.

The *Mid-Year Budget Review* forms one part of an overlapping cycle of planning, allocating, monitoring and reporting the resources of government. This review consists of an update of budget parameters and forward estimates mid-way between the date of publication of one budget and the planned date of the next. The review also includes the most recent actual results for the budget year to date.

The financial statements in this review (and in the Budget Papers and the *Financial Report for the State of Victoria*) are presented in two formats. The first, used for the statements covering the Victorian budget sector, is based on Australian Accounting Standards.

The second uses the cash-based Government Financial Statistics (GFS) format formulated by the Australian Bureau of Statistics (ABS), and agreed to be used by all Australian governments under the Uniform Reporting Framework. It is

used to present accounts based on ABS classifications of government activities into general government sector and public trading enterprises. The ABS has developed an accrual-based GFS format that will be used from 2000-01 onwards.

THE BUDGET

The annual state budget, which is now usually presented to Parliament in late April or early May, sets out the Government's financial plans for the financial year ahead, that is from 1 July to 30 June. The Budget Papers include full financial statements for the budget sector, as well as other financial information, such as expected changes in assets and liabilities, for the budget year. They also include forecast statements for the following three financial years, known as the forward estimates.

The forward estimates are prepared on the assumption that existing government policy will be unchanged over the three years. It should be noted that this is not the same as assuming that there will be no change in government services over the three years. If existing policy is that particular activities will be introduced, phased out, or varied during the forward estimates period, the financial impacts of such changes are incorporated.

The Budget Papers also include details of each Department's business and performance plan for the budget year, including details of the outputs the portfolio intends to provide; the resources it intends to use in providing those outputs; and the performance measures and targets that it intends to meet in respect of each output.

Through the annual Appropriation Acts, Parliament sets an upper limit on the amount of money the Treasurer may pay to each Department from the Consolidated Fund for particular activities undertaken during the budget financial year. Many other Acts of Parliament also control financial management and resource use throughout government, but these Acts are ongoing and do not have to be passed annually.

BUDGET CYCLE

The complete cycle for each state budget, from initial planning and development to final reporting and review, occupies some two years. The timing of some aspects may vary from year to year and the government may choose to adjust elements of the cycle at any time. The cycle typically has had the following features:

Planning and development of the budget

- In the September or October before the budget financial year, Departments prepare indicative submissions for output strategies and asset investment proposals.
- During November and December the Cabinet committee reviewing expenditure considers the forward estimates prepared by the Department of Treasury and Finance (DTF) and sets the general budget strategy of the Government. The forward estimates are based on actual results for the year to date and previous years, revised economic data, and departments' indicative submissions.
- From December to February Departments prepare their detailed submissions for new or enhanced outputs and asset investment proposals. They revise ongoing output provision specifications and performance measures and targets for consideration by the Cabinet committee.
- From February to April, the Cabinet committee reviews each Department's budget submission and questions Ministers and senior staff on the contribution that each proposal will make towards meeting government outcomes. These decisions are incorporated in the draft budget that is presented to the Treasurer and Cabinet committee for final decisions.
- In April the Treasurer's decisions are finalised, the budget database is closed to further changes and the Appropriation Bills and Budget Papers are prepared.
- In late April or early May the Treasurer presents the budget to Cabinet and then to Parliament. The Appropriation Bills are debated and enacted. The Public Accounts and Estimates Committee commences its hearings on the budget estimates.

Monitoring of actual results during the budget financial year

- Departments provide quarterly detailed output performance data and report progress on asset investments and major initiatives. Output revenue certification reports are prepared recommending to the Treasurer the amount of revenue that each Department should receive from government for its outputs.
- The expected budget outcome and forward estimates are updated during November and the *Mid-Year Budget Review* is prepared for publication towards late December or early January. This process is repeated in March in readiness for the publication of the next budget in late April or early May.

Review and reporting of budget outcome

- During July and August after the budget financial year the financial year data for Departments and whole of government are closed off. Financial statements for presentation to the Auditor-General are compiled.
- During August and September the Auditor-General audits financial statements and issues audit opinions. The *Budget Outcome Statement* is prepared for tabling in Parliament, and its figures are incorporated in the annual *Financial Report for the State of Victoria*.
- In October the annual *Financial Report for the State of Victoria*, which includes the annual financial statement for the State, GFS data and the Auditor-General's audit opinion, is tabled in Parliament by the Treasurer. The Auditor-General's narrative *Report on the Victorian Government's Finances* is tabled subsequently.
- During October Departments and other agencies publish their annual reports, which include audited financial results and details of Departments' actual output performance against their budgeted performance targets.

INITIATIVES TO ENHANCE ACCOUNTABILITY AND QUALITY OF REPORTING

The Government is progressively implementing its policy for more transparent and accountable government. Key initiatives include:

- The introduction of financial responsibility legislation which will provide more open and accountable processes for the development of budget estimates and the reporting of actual results against the budget. This will include giving the Auditor-General a key new role in respect of budget data.
- Publication of additional information that will enable improved reconciliation of estimates and actuals. Budget estimates are updated and revised during the year as a result of decisions such as revised economic parameters, reclassifications of data, transfer of responsibilities between agencies, and implementation of new policies. While government and departmental management remain fully accountable for financial performance, a more detailed explanation of the reasons for these changes will enable Parliament, the media and the public to identify the most significant factors impacting on financial results. This year's *Mid-Year Budget Review* initiates an increased focus on reconciliations.

- Publication of quarterly financial reports. Until 1997, Australian governments published monthly statements of financial aggregates on a cash basis (“Niemeyer” statements). The usefulness of these statements in monitoring performance was limited by the lack of data on movements in assets and liabilities and by often large seasonal fluctuations in receipts and payments. Now that financial aggregates are produced on a full accrual basis, the Government will publish quarterly and year-to-date operating and cash flow statements and an end-of-quarter balance sheet for the budget sector. The Government will also provide additional financial information in the *Mid-Year Budget Review*.

OTHER INITIATIVES IN DEVELOPMENT

Following the 28th report of the Public Accounts and Estimates Committee on Annual Reporting, other initiatives being investigated include:

- developing and publishing stronger links between budgeted outputs and the Government’s desired policy outcomes, so that the contribution made by each output towards those outcomes is publicly reported. This will also enable the Government, Parliament, the media and the public to determine whether the resources used in providing each output are being used effectively towards meeting community needs; and
- improved reporting of benchmarking of output targets and results against previous time periods and other jurisdictions. This includes active participation in national and international efforts to develop standard quantity and quality performance measurement data so that benchmarking can be implemented on a truly comparative basis.

IMPROVING COMPARABILITY OF DATA

The usefulness of financial data is greatly enhanced if it is placed in the context of a consistent time series, so that users can track changes in performance over time. It is for this reason that three-year forward estimates are published in each year’s Budget Papers. The ABS publishes cash-based GFS data in a consistent time series dating back to 1961-62. From time to time the Victorian Budget Papers and other publications have included historic time series data, usually for the previous ten years. The Government intends this to be a more regular feature of budget documents, and Appendix E provides budget sector cash aggregates from 1984-85 to 2002-03.

However, there are a number of factors that affect the continuity of time series data. These include:

- changes in output performance measures. Output performance has formed the basis of departmental budgets for only the past two financial years, and the specification of appropriate outputs and development of effective performance measures is still being refined. Even after this introductory phase it is to be expected that new outputs will be added and old ones ceased or amended from time to time as government priorities change. However, the intention is to ensure that as far as practicable such changes are made in a way that will enable historic time series data to be produced, including re-stating or re-basing old output performance data in a manner which maintains its comparability to current performance;
- changes in classifications. From time to time national bodies such as the ABS vary their methods of classifying data, or accounting standards are revised. For example, payments previously classified as balance sheet changes have in recent years been reclassified as operating expenses (for example, some asset spending has been reclassified as maintenance rather than investment); and entities previously classified as general government have been reclassified as public trading enterprises (for example, the Director of Housing). In these cases, historic data is re-stated so as to ensure continuity with future data;
- the change from cash-based to accrual-based financial aggregates has resulted in a break in the time series. Unfortunately it is not technically feasible to reconstruct a complete accrual-based time series from available financial records, as much historic information on assets and unfunded liabilities is lacking or deficient for all but the most recent years. Aggregate operating statement data for the Victorian budget sector is only available from 1996-97 and this times series is published for the first time in Appendix E, *Budget Sector Historical and Forward Estimates Tables*; together with historical budget sector cash flow data from 1984-85; and
- changes in the structure of government. From time to time the Victorian Government restructures departments, or moves activities between departments or from departments to a public trading enterprise. If the financial impacts of these moves are material, the historic data will be restated on the same structural basis so as not to distort comparisons of previous performance with current performance.

SECTION 2: FINANCIAL STRATEGY

- The Government is committed to a prudent financial strategy, including maintenance of a substantial operating surplus.
- Key community requirements relating to service delivery, taxation and infrastructure will be addressed through the rolling implementation of the Government's election commitments and in the 2000-01 Budget.
- Financial strategy will be undertaken in a transparent and accountable manner.

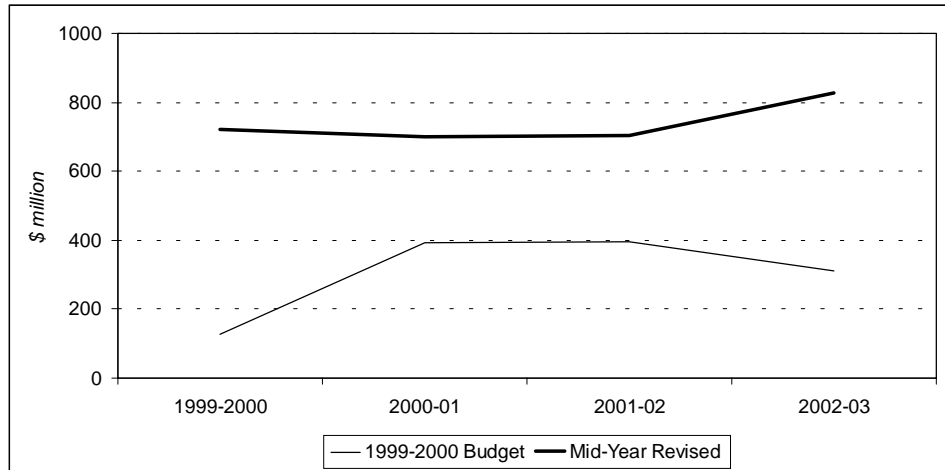
The Victorian Government is committed to running a prudent financial strategy, thereby providing a sound basis from which to address community needs.

A key element of this strategy will be the maintenance of a substantial operating surplus in each year. As Chart 2.1 shows, the revised estimates for the budget sector operating surplus show an improved outlook compared to the 1999-2000 Budget. These estimates include election spending commitments of \$76 million in 1999-2000, rising to over \$160 million by 2001-02 (see Section 5, *Election Commitment Implementation Report Card* for details).

The mid-year revised estimates for the operating surplus will provide the starting point for the development of the Government's 2000-01 Budget strategy. Elements of this strategy will include:

- maintaining a substantial operating surplus;
- improved service delivery to Victorians;
- competitive and fair taxes for businesses and households;
- providing capital works to enhance social and economic infrastructure throughout Victoria; and
- maintaining state government net financial liabilities at prudent levels.

Chart 2.1: Operating surplus before abnormals



Source: Department of Treasury and Finance

The Government's financial strategy will be backed-up by improved budget transparency and accountability. The *1999-2000 Mid-Year Budget Review* represents a substantial improvement in reporting compared to the previous year, with the addition of a reconciliation table between 1999-2000 Budget estimates and revised estimates, a reconciliation of the operating statement to net debt, a statement of financial position and an assessment of major risks.

Sustainable budget planning position

A concept included in Budget Papers in recent years has been the sustainable cash surplus. This measure was developed in order to remove the effect of temporary revenue streams and one-off transactions that had a substantial impact on the budget position over the forward estimates period. However, with the new Government not supporting any further major privatisation program the significance of non-sustainable cash flows is expected to diminish in future years, making the sustainable cash surplus concept less relevant. For this reason, estimates of the sustainable cash surplus have not been included in this *Mid-Year Budget Review*. While it is probable that in the future there will, on occasion, be one-off revenue gains or losses and expenses, examination of the operating surplus projections over a number of years is likely to be a better way of assessing budget sustainability than a number of ad hoc adjustments to the estimates.

SECTION 3: ECONOMIC CONDITIONS AND OUTLOOK

- The Victorian economy has grown more strongly than expected at Budget time. Consumer spending and housing construction have been important drivers of growth, although there are signs that business investment is moderating from its recent peak. Victoria continues to gain population from interstate.
- The economic outlook is robust. Victorian economic growth is now expected to be 3¼ per cent in 1999-2000 and to remain at or above 3 per cent in later years. Employment is forecast to rise by 2 per cent this year and to grow at 1½ per cent per annum in later years.
- Risks to the outlook include an acceleration in wage growth following the introduction of the GST, adverse overseas financial market developments, fragility in the East Asian economic recovery, and higher than expected net interstate migration.

ECONOMIC CONDITIONS SINCE THE BUDGET

Since Budget time, final estimates of gross state product (GSP) have been released by the ABS. Victorian GSP growth for 1997-98 was revised up from a preliminary estimate of 3.8 per cent to 4.5 per cent. GSP growth accelerated further in 1998-99 to 6.2 per cent, well above national growth of 4.5 per cent. Victorian growth in 1998-99 was also above the Budget forecast of 3¾ per cent, reflecting unexpectedly strong contributions from net overseas merchandise exports and unidentified expenditure.

State final demand, representing private and public consumption and investment spending, grew by 4.9 per cent in trend terms over the year ending September quarter 1999, compared with 4.5 per cent nationally.

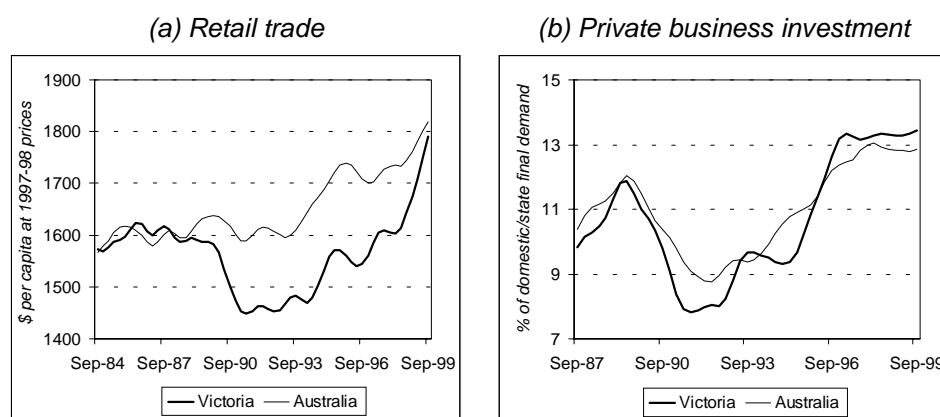
Private consumer spending has continued to grow particularly rapidly in Victoria. Much of this appears to represent a return by Victorians to the per capita spending levels of the late 1980s (see Chart 3.1a). The strongest areas of

retail turnover recently have been clothing and hospitality. However, new motor vehicle registrations have fallen sharply in recent months, probably reflecting the deferral of purchases ahead of the introduction of the goods and services tax (GST).

While the GST is expected to reduce the price of motor vehicles, it is anticipated that housing construction costs will rise. This, along with population gains from interstate, has contributed to the continuing rise in Victorian housing construction.

There are signs that private business fixed investment is moderating from its recent historically high levels. This is in line with national trends and also reflects the completion or approaching completion of a number of major projects, including City Link and the Colonial Stadium (see Chart 3.1b).

Chart 3.1: Retail trade and private business investment (trend)



Source: Australian Bureau of Statistics, Cat. Nos. 3101.0, 5206.0 and 8501.0, and Prod. No. 5206.0.40.001.

Employment has grown more strongly than expected since May, representing a considerable improvement over the broadly static employment conditions which prevailed in late 1998. Despite increased labour force participation in response to stronger labour demand, the trend unemployment rate has resumed its decline, reaching a nine-year low of 6.9 per cent in November 1999.

The Melbourne consumer price index (CPI) jumped by 1.0 per cent in the September quarter (1.9 per cent through the year), reflecting higher petrol and new house prices. However, inflation remains below the Reserve Bank's 2 - 3 per cent medium-term target range. Victorian wages growth continues to be restrained. Total hourly rates of pay (excluding bonuses) grew by 2.8 per cent through the year to September 1999.

Victoria gained population from the rest of Australia in 1998-99, attracting 3975 people from interstate.

ECONOMIC OUTLOOK

World growth is expected to gather momentum over the next two years as conditions in the developing economies and central and eastern Europe improve. A mild slowdown in the United States is likely to be offset by a faster than earlier expected recovery in industrialised East Asia and a creeping improvement in Japan, sustaining annual growth in the advanced economies at close to 3 per cent. This represents a marked improvement in the global outlook since Budget time, especially in the Asia-Pacific region.

In its latest *Mid-Year Economic and Fiscal Outlook*, the Commonwealth Treasury projected national growth to ease from 4.5 per cent in 1998-99 to 3½ per cent in 1999-2000 and 3¾ per cent in 2000-01. The expected national slowing in 1999-2000 reflects moderating growth in consumer spending (in response to rising household debt levels) and a levelling out in construction activity.

The introduction of the GST is expected to lift national headline CPI growth from 2¼ per cent in 1999-2000 to 5¼ per cent in 2000-01.

Revised economic projections for Victoria are presented in Table 3.1, along with the projections used in the 1999-2000 Budget where different.

Victorian economic growth for 1999-2000 is now expected to be 3¼ per cent, stronger than the 2¾ per cent Budget-time projection. This reflects the continued robust growth of the national economy and the strength of Victorian state final demand since the Budget. The longer-term outlook for Victorian GSP is broadly unchanged at around 3 per cent annual growth or better (see Chart 3.2).

Growth in state final demand is expected to ease during 1999-2000, reflecting a moderation in consumer spending growth, the levelling out of business investment and the peaking of the dwelling construction cycle. In the remainder of the projection period, state final demand growth may ease marginally as consumer spending growth moderates and dwelling construction turns down.

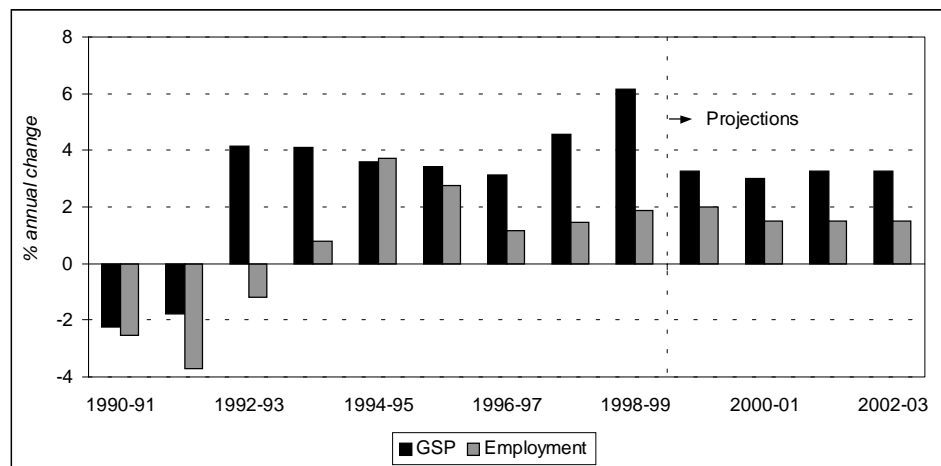
Strong employment growth since the Budget has contributed to an upward revision to the employment growth projection for 1999-2000 to 2 per cent (compared with 1 per cent at Budget time). Employment growth is expected to average 1½ per cent in 2000-01 and beyond in line with the slowing in GSP growth (see Chart 3.2).

The expected level of the participation rate in 2000-01 and later years is now assumed to be broadly stable. This is more consistent with recent long-term ABS labour force projections in which the progressive ageing of the population slightly outweighs the effect of continuing rises in female participation.

Stronger employment growth in 1999-2000 and lower participation rates in later years have the combined effect of reducing the expected trajectory of the Victorian unemployment rate, which is now projected to reach 6¼ per cent by mid-2003.

The projections assume that wage claims remain consistent with growth in the wage cost index of the order of 3½ per cent per annum. This, in turn, assumes that the income tax cuts which accompany the imposition of the GST will be regarded by the labour market as adequate to maintain real post-tax wage rates.

Chart 3.2: Gross state product and employment



Source: Australian Bureau of Statistics, Cat. Nos. 5220.0 and 6203.0 and Department of Treasury and Finance.

There are a number of upside and downside risks to the outlook:

- If there is a widespread acceleration in wages growth following the introduction of the GST, the domestic economic outlook will deteriorate due to the direct effects of higher labour costs on employment and business investment, and through the adoption of tighter anti-inflationary monetary policy settings by the Reserve Bank.

- The ongoing strength of the US economy may require a tighter monetary policy response than has so far been foreshadowed by the US authorities. While domestic financial markets are likely to respond quite rapidly to higher international interest rates, the contractionary effects on real activity could be expected to unfold over several years.

Table 3.1: Economic projections^(a)

(Projections in 1999-2000 Budget, where different, are in brackets)

	Actual	Projections			
	1998-99	1999-00	2000-01	2001-02	2002-03
Gross state product	6.2 (3¾)	3¼ (2¾)	3	3 ¼	3 ¼
Employment	1.9 (1¾)	2 (1)	1½	1½	1½
Unemployment rate ^(b)	7.8 (7½)	7 (7½)	6¾ (7½)	6½ (7¼)	6¼ (7¼)
Participation rate ^(c)	63.0 (63)	63	63 (63¼)	63 (63¼)	63 (63½)
Consumer price index	0.9 (1)	2¼ (2)	5¼ (2 ½)	2¼ (2 ½)	2½
Consumer price index abstracting from GST	0.9 (1)	2¼ (2)	2½	2½	2½
Wage cost index ^(d)	3.0 (3½)	3¼ (3½)	3½	3½	3½
Population ^(e)	1.2 (1.0)	0.9 (0.8)	0.8	0.8	0.8

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

Notes:

- (a) Per cent change on preceding year unless otherwise indicated.
- (b) Estimate for June quarter, per cent.
- (c) Year average, per cent.
- (d) Total hourly rate excluding bonuses.
- (e) June quarter, per cent change on previous June quarter. Based on Australian Bureau of Statistics series L projections.

- A sharp downward correction in US asset prices, or a stalling in the pace of the East Asian recovery, might be detrimental to the emerging upturn in the global economy.

- The International Monetary Fund has concluded that supply disruptions arising from the Y2K problem are likely to be limited, especially in industrial countries such as Australia. However, uncertainty remains regarding the impact of precautionary behaviour on economic activity and financial markets.
- A renewed trend towards increased participation, independent of employment developments, would limit the scope for reductions in the unemployment rate. An increase in the labour force participation rate of $\frac{1}{2}$ percentage point, other things equal, would raise the Victorian unemployment rate by $\frac{3}{4}$ percentage points, or by about 20 000 persons. Movements of this order of magnitude over sustained periods are quite feasible.
- The projections in Table 3.1 are based on net interstate migration losses of 7000 per annum despite the fact that Victoria gained almost 4000 persons from interstate in 1998-99. The assumption was incorporated into the projections because, of the available official ABS population projections, this is the most favourable to Victoria. An additional 11 000 interstate migrants per annum would raise the projected annual Victorian GSP and employment growth rates by around $\frac{1}{4}$ percentage point.

SECTION 4: BUDGET POSITION AND OUTLOOK

- The budget sector operating surplus is now expected to amount to \$720.8 million before abnormals, up from the \$128.7 million estimate published in the 1999-2000 Budget.
- The revised budget outlook incorporates the impact of stronger than expected economic conditions together with all policy decisions announced since the 1999-2000 Budget and the budget impact of implementation of the national tax reform program.
- The projected net asset position of the budget sector as at 30 June 2000 has improved from \$9 222.3 million at Budget time to \$13 366.5 million.

This section provides details of the revised budget outlook for 1999-2000 and the forward estimates period to 2002-03, together with explanations of variations to the budget outlook since the 1999-2000 Budget published in May 1999.

The revised budget outlook reflects the economic projections outlined in Section 3, *Economic Conditions and Outlook*, and incorporates the impact of all policy decisions announced since the presentation of the 1999-2000 Budget.

The forward estimates also include, for the first time, the expected impact of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) on Victoria's budget sector finances. In particular, the revised forward estimates reflect the budget impact of the implementation of national tax reform, including the introduction of the GST effective from 1 July 2000, as set out in the IGA. This impact, however, excludes savings from the abolition of embedded wholesale sales tax, as estimated by the Commonwealth.

OPERATING STATEMENT

Table 4.1 presents the revised projected budget sector operating statement for the period 1999-2000 to 2002-03.

Table 4.1: Budget sector operating statement 1999-2000 to 2002-03

	(\$ million)				
	1999-00 Budget	1999-00 Revised	2000-01 Estimate	2001-02 Estimate	2002-03 Estimate
Taxation	8 691.0	9 023.1	7 593.8	7 224.3	7 548.1
Regulatory fees and fines	246.6	274.0	270.3	234.6	237.7
Public authority income	646.8	915.9	690.4	476.8	403.2
Current grants	7 155.5	7 148.4	9 380.0	10 308.3	10 662.0
Capital grants	451.2	454.0	419.4	412.2	411.0
Sale of goods and services	1 812.9	1 812.9	1 819.4	1 833.6	1 854.0
Net surplus from disposal of physical assets	32.0	32.0	28.1	12.3	6.8
Fair value of assets received free of charge	0.1	0.1	0.1	0.1	0.1
Other	453.6	837.3	826.4	811.6	811.2
Total revenue	19 489.6	20 497.7	21 027.9	21 313.9	21 934.2
Employee entitlements	7 418.9	7 438.4	7 666.9	7 888.2	8 160.8
Superannuation	1 437.4	1 437.5	1 459.8	1 532.8	1 564.1
Depreciation	720.0	720.0	754.8	807.4	853.6
Amortisation	32.9	66.9	71.4	68.3	70.3
Interest and finance costs	532.1	425.8	387.4	334.6	282.4
Current grants	2 608.6	2 928.3	2 793.6	2 783.4	2 876.6
Capital grants	700.7	551.5	444.5	397.3	371.7
Supplies and consumables	5 910.2	6 208.3	6 750.2	6 798.2	6 926.6
Other	..	..	..	..	..
Total expenses	19 360.9	19 776.8	20 328.6	20 610.1	21 106.0
Operating surplus before abnormals	128.7	720.8	699.3	703.7	828.2
Add abnormal items	..	715.0	..	..	..
Operating surplus after abnormals	128.7	1 435.8	699.3	703.7	828.2
1999 election commitments not yet implemented	..	64.3	250.8	276.5	302.5

Source: Department of Treasury and Finance

The operating surplus before abnormals for 1999-2000 is now expected to total \$720.8 million, \$592.1 million higher than the estimate published in May 1999 Budget.

After taking into account abnormal revenue of \$715 million, the revised 1999-2000 operating surplus after abnormals rises to \$1 435.8 million. The abnormal revenue in 1999-2000 arises from the franchising of passenger public transport services completed in late August 1999. The revenue represents the State's right to receive public transport services in future years, leading to the creation of an asset in the budget sector statement of financial position. Although the abnormal revenue is reflected in the 1999-2000 operating statement, it is offset over the life of the public passenger transport franchise contracts by an increase in amortisation expense associated with the asset.

The budget sector operating surplus is expected to fall slightly to \$699.3 million in 2000-01 before rising to \$822.6 million by 2002-03.

The trend in the operating surplus over the forward estimates period is affected by a number of one-off or non-recurring influences affecting revenue in particular years.

The decline in the operating surplus in 2000-01, for example, partly reflects a projected decrease in public authority income. This is mainly due to abnormally high public authority income receipts in 1999-2000 as a result of timing effects and stronger than expected performance by public financial enterprises. The expected staged cessation of gas industry monopoly rent distributions also contributes to the projected decline in public authority income from 2000-01. The winding down of the electricity sector franchise and licence fees following the introduction of full competition into electricity markets from 1 January 2001 will also constrain growth in total revenue in 2000-01 and 2001-02.

After taking into account these one-off effects, a moderate rise in the operating surplus is projected between 1999-2000 and 2002-03. The increase from \$720.8 million to \$828.2 million reflects the impact of an average growth in total operating revenue of around 2.3 per cent per annum, partly offset by an average growth in total operating expenses of around 2.2 per cent per annum.

The growth in operating revenue is largely driven by an increase in Commonwealth current grants reflecting the receipt of the GST revenue grants and transitional guarantee payments. It is kept to a moderate rate due to the repeal of certain state taxes consistent with the terms of the IGA and due to a decrease in public authority income and electricity sector licences and franchise fees arising from the introduction of full competition in gas and electricity markets.

Operating expenses excluding interest costs increase by 2.5 per cent per annum on average over the forward estimates period. This growth rate is consistent with expected underlying inflation, and with provision for increased demand for services owing to a rising Victorian population being broadly offset by productivity savings required of Departments.

Interest expense is projected to fall steadily over the forward estimates period. The decline in interest expense reflects the application of projected budget surpluses, on an unchanged policy basis, to reduction in budget sector liabilities over the forward estimates period.

It is important to note that the budget sector operating statement as presented in this section does not take into account the Government's 1999 State election commitments not yet implemented. As indicated in Table 4.1, the cost of funding the yet to be implemented commitments is estimated to total \$64.3 million in 1999-2000, rising to \$302.5 million in 2002-03 based on costings published in the *Labor's Financial Statement – the First Term of a Bracks Labor Government*. Once formally approved, the impact of these election commitments will be incorporated in the budget estimates.

RECONCILIATION TO PUBLISHED ESTIMATES 1999-2000 TO 2002-03

Table 4.2 provides a reconciliation of the variation in the projected budget sector operating surplus since the 1999-2000 Budget.

As indicated in the table, the projected operating surplus (before abnormals) for 1999-2000 is \$720.8 million, an increase of \$592.1 million on the \$128.7 million reported in the 1999-2000 Budget. On the basis of existing policy, the operating surplus is expected to average around \$740 million over the remainder of the forward estimates period, compared to \$365 million at Budget time.

The improvement in the surplus reflects an increase in projected revenue flowing from stronger economic conditions, partly offset by an increase in operating expenses. The following explains the key variations in operating revenue and expenses since the published 1999-2000 Budget.

Variations to total operating revenue

Table 4.2 highlights significant increases in total operating revenue for 1999-2000 and the forward estimates. Projected operating revenue for 1999-2000 is \$1 008.1 million higher than the published budget estimates, with the improvement in the out-years averaging \$1 036.0 million.

Table 4.2: Reconciliation to published estimates 1999-2000 to 2002-03

	(\$ million)			
	1999-00 Revised	2000-01 Estimate	2001-02 Estimate	2002-03 Estimate
Operating surplus - 1999-2000 Budget	128.7	391.0	395.9	309.7
Plus: revenue variations				
Economic effects	620.0	356.8	388.9	482.7
National tax reform implementation ^(a)	..	350.1	239.8	231.2
Energy sector privatisation - revenue foregone	- 0.9	- 13.6	- 20.5	- 20.5
VicTrack capital asset charge reclassification	389.0	371.0	371.0	371.0
Total revenue variations	1 008.1	1 064.3	979.2	1 064.5
Less: variations in operating expenses				
Labour government policy				
<i>New spending decisions</i> ^(b)	37.2	152.5	177.8	180.7
<i>New saving initiatives</i>	- 45.6	- 104.4	- 105.0	- 106.2
Total Labour government policy	- 8.3	48.1	72.8	74.5
Previous Coalition government policy				
<i>Public transport franchising</i>	30.8	59.4	71.2	- 1.1
<i>Other policy</i>	4.4	19.9	3.5	2.5
Total previous Coalition government policy	35.2	79.3	74.7	1.4
National tax reform implementation ^(a)	..	453.2	340.9	344.0
Public debt interest - revised financing requirement impact	- 106.3	- 140.3	- 172.6	- 202.0
VicTrack capital asset charge reclassification	389.0	371.0	371.0	371.0
Other ^(c)	106.3	- 55.3	- 15.4	- 42.8
Total expense variations	415.9	756.0	671.5	546.0
Revised operating surplus before abnormals	720.8	699.3	703.7	828.2

Source: Department of Treasury and Finance

Notes:

- (a) The impact of national tax reform on the operating statement excludes the Commonwealth Government's estimates of embedded tax savings.
- (b) Includes the net budget impact (after allowing for funding from existing forward estimates contingency reserves) of government decisions in relation to both implementation of election commitments and other policy, as outlined in Appendix B, Specific Policy Initiatives Affecting Budget Position.
- (c) Includes carryover from 1998-99 to 1999-2000 of expenses in relation to payments on behalf of the State and the impact, from 2000-01 onwards, of revised actuarial assessment of superannuation expenses.

The increase in projected revenue owes importantly to the impact of stronger than expected asset markets and improved economic conditions generally. This includes the impact of buoyant property markets on conveyancing stamp duties, stronger than expected payroll, gambling and land taxes, and stronger than expected profits in the government business enterprise sector leading to higher public authority distributions.

Stronger than expected economic and asset markets contribute to the projected increase in taxation revenue of \$332.1 million in 1999-2000 (refer Table 4.1) with an average increase of \$311.0 million in the out-years. However, from 2000-01, the increase in taxation revenue attributable to economic factors is disguised by state taxes forgone as a result of the implementation of national tax reform.

Buoyant asset and other markets have also led to higher than budgeted public authority distributions, mainly in the 1999-2000 financial year. An increase of \$269.1 million for 1999-2000 (refer Table 4.1) is mainly attributable to higher than budgeted receipts from the Transport Accident Commission as a result of better than expected financial performance and from Gascor resulting from the sale of gas rights. A payment by the State Electricity Commission of Victoria (SECV) of \$55.0 million originally budgeted for 1998-99 but not received until 1999-2000 also contributes to the increase in public authority income in the current financial year.

Taking together the impact of stronger economic conditions on taxes, public authority income and other revenues reveals a gross boost to projected revenues since Budget of \$620.0 million in 1999-2000 and an average \$409.5 million per annum for the out-years (refer Table 4.2).

A correction to the accounting treatment of the capital asset charge applying to VicTrack has also led to an increase in reported revenue since the Budget, of \$389.0 million in 1999-2000 and \$371.0 million in 2000-01 onwards. The inclusion of this charge better reflects transactions between budget sector agencies and public trading enterprises. This variation is a one-off adjustment that is offset by an equivalent rise in operating expenses for the same period and therefore has no impact on the overall operating result.

The implementation of national tax reform has a significant impact on total operating revenue from 2000-01. The net impact of national tax reform reflects the difference between state taxes and financial assistance grants forgone less GST revenue grants and transitional guarantee payments received from the Commonwealth. As can be seen in Table 4.2, implementation of national tax reform is expected to result in an increase in total revenue, relative to published budget estimates, of \$350.1 million in 2000-01, \$239.8 million in 2001-02 and \$231.2 million in 2002-03.

Variations to total operating expenses

Projected budget sector operating expenses for 1999-2000 are \$415.9 million higher than the 1999-2000 Budget estimates published in May 1999. Operating expenses over the remainder of the forward estimates period are around \$657.8 million higher on average than the published 1999-2000 Budget estimates.

The increase in operating expenses since the 1999-2000 Budget is mainly due to policy decisions announced since the Budget and a classification change which has increased reported expenses.

Recent decisions announced by the Labor Government in relation to spending and savings initiatives have the effect of decreasing operating expenses by \$8.3 million in 1999-2000 and increasing annual operating expenses by \$48.1 million, \$72.8 million and \$74.5 million over the forward estimates years to 2002-03. It is expected that future decisions in relation to the implementation of the remaining Labor election commitments will further increase total operating expenses over the forward estimates period.

Post-budget decisions by the previous Coalition Government added \$35.2 million to operating expenses in 1999-2000, around \$75 million to \$80 million in the next two years, and only \$1.4 million in 2002-03. This largely reflects increased costs of franchising passenger public transport services in the first three years of the shift to franchise operation, followed by lower costs from 2002-03 onwards.

The franchising of passenger public transport services has also resulted in a change in the composition of operating expenses. In particular, there has been a reduction in current and capital grants to government business enterprises and an offsetting increase in supplies and consumables and amortisation expenses, reflecting the new arrangements whereby the Government purchases passenger public transport services from external private franchise operators rather than from public transport corporations.

Appendix B of this review provides more details on specific policy decisions impacting the budget outlook since May 1999.

The reclassification of the VicTrack's capital asset charge had the effect of increasing reported current grants by \$389 million in 1999-2000 and \$371 million in the out-years. As noted above, this reclassification is offset by an equivalent increase in reported operating revenue and therefore has no impact on the operating result over the period.

The implementation of national tax reform is expected to increase operating expenses, relative to the published budget estimates, by \$453.2 million in

2000-01. The increase in expenses attributable to national tax reform implementation falls to \$340.9 million in 2001-02 and \$344.0 million in 2002-03. A large part of the increased expenditure is due to the transfer to the State, under the terms of the IGA, of responsibility for administering the first home owners' scheme at an average annual cost to the State of \$195.9 million between 2000-01 and 2002-03. The remainder of the increase in expenses relates to administration costs payable by the State to the Australian Taxation Office (\$203.4 million in 2000-01 falling to \$86.4 million in 2002-03) in relation to implementation of and collection of the GST.

The estimated impact of national tax reform implementation on operating expenses does not take into account the impact of possible savings in departmental operating expenses arising from the cessation of embedded wholesale sales and other taxes due to be abolished under the terms of the IGA. These savings have been estimated by the Commonwealth as being \$100.4 million in 2000-01, \$107.4 million in 2001-02 and \$115.0 million in 2002-03. If the savings were brought to account the rise in operating expenses due to national tax reform would very closely match the rise in revenues due to national tax reform over the 2000-01 to 2002-03 period.

The increase in operating expenses attributable to the above factors is partly offset by a reduction in projected interest and superannuation expenses relative to published budget estimates.

Revised interest expenses are \$106 million lower than the published budget estimates in 1999-2000, rising to \$202.0 million by 2002-03. In part, this reflects the impact of the application to debt retirement of proceeds from the post-Budget privatisation of Transmission Pipelines Australia. However, the improvement in the underlying budget position since May 1999 has also contributed to the reduction in projected interest expense, reflecting the application of higher than expected operating surpluses to reduction of budget sector liabilities.

The decline in projected superannuation expenses (averaging \$75 million between 2000-01 and 2002-03 – see Table 4.1) reflects the flow-through effect of one-off payments made to the State Superannuation Fund in 1998-99 to reduce the State's unfunded superannuation liability.

Impact of national tax reform

The implementation of the national tax reform program, beginning 1 July 2000, will alter the Commonwealth-State financial relationship. As discussed earlier in this section, the greatest implications arising from national tax reform comes from the replacement of financial assistance grants with GST revenue grants

and the phasing out of certain current state taxes between 1 July 2000 and 1 July 2005. As GST revenue increases with the growth of the economy, GST revenue grants will significantly outweigh the revenue streams to be abolished. The taxes to be removed include:

- bed taxes on 1 July 2000 (not relevant to Victoria);
- financial institutions duty on 1 July 2001;
- stamp duties on quoted marketable securities on 1 July 2001;
- gambling tax arrangements will be adjusted to take account of the impact of the GST on gambling operators beginning 1 July 2000; and
- debits tax will be abolished on 1 July 2005, subject to review by the Ministerial Council.

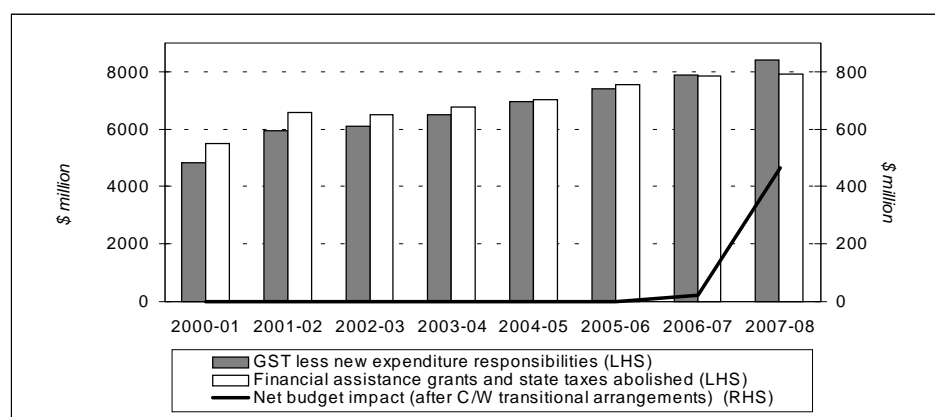
Furthermore, the States and Territories will review the need for several other indirect taxes by 2005. Specific purpose payments will remain unaffected by the national tax reform package.

Under the national tax reform package, State and Territory Governments also incur additional expenditure responsibilities. The most significant additional expenditures relate to costs of the first home owners' scheme transferred to the States under the terms of the IGA and administration costs payable to the Australian Taxation Office for implementation and ongoing collection of the GST.

The IGA describes the agreed steps for the implementation of the national tax reform package. In particular, the IGA includes a guarantee that the States' cash budgetary positions will be no worse after the reforms. This guarantee will be achieved through the Commonwealth providing transitional payments to remedy any net shortfall in GST revenues, after taking into account the additional expenditure responsibilities transferred to the State under the national tax reform package. It is estimated Victoria will not need transitional assistance from 2006-07 onwards.

Chart 4.1 shows the positive net budget impact of national tax reform on a cash basis after 2005-06 for Victoria. It is estimated Victoria will be ahead by \$22.9 million in 2006-07, excluding estimates of embedded tax savings, and that the net gains will increase thereafter.

Chart 4.1: Net budget impact of national tax reform for Victoria



Source: Department of Treasury and Finance

The estimated Victorian GST grants over the forward estimate period are shown in Table 4.3.

Table 4.3: Victoria's share of GST revenues

	(\$ million)							
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Victoria's share	5 166.4	6 177.5	6 301.5	6 675.6	7 076.1	7 500.7	7 950.7	8 427.8

Source: Department of Treasury and Finance

Under the new arrangements revenue from the Commonwealth, including capital and current grants, will increase to around 50 per cent of total state budget sector revenue in 2002-03.

STATEMENT OF FINANCIAL POSITION

Table 4.4 provides details of the budget sector statement of financial position. Projected net assets for the period from 1999-2000 to 2002-03 have increased significantly since the publication of the 1999-2000 Budget. The projected budget sector net asset position as at 30 June 2000, in particular, has improved from \$9 222.3 million at Budget time to \$13 366.5 million as reported in the Table below.

Table 4.4: Budget sector statement of financial position as at 30 June

	(\$ million)					
	1999 Actual	2000 Budget	2000 Revised	2001 Estimate	2002 Estimate	2003 Estimate
Current assets						
Cash and deposits	583.2	846.2	584.4	612.3	645.5	686.4
Investments	848.3	891.9	820.9	792.6	764.4	740.4
Receivables	771.6	648.8	657.0	958.4	639.7	639.9
Prepayments	81.9	54.1	81.9	81.9	81.9	81.9
Inventories	128.8	118.4	129.8	130.0	130.4	131.0
Other	348.0	8.0	348.0	348.0	348.0	348.0
Total current assets	2 761.8	2 567.4	2 622.1	2 923.3	2 610.0	2 627.6
Non-current assets						
Investments	247.7	430.8	247.7	247.7	247.1	247.1
Receivables	442.9	423.8	368.7	298.4	230.8	166.2
Physical assets and other ^(a)	30 358.2	29 444.9	31 286.5	31 685.1	32 125.7	32 624.8
Total non-current assets	31 048.8	30 299.5	31 902.9	32 231.2	32 603.7	33 038.1
Total assets	33 810.6	32 866.9	34 525.0	35 154.5	35 213.6	35 665.7
Current liabilities						
Payables	781.4	941.8	795.5	813.1	830.1	846.4
Borrowings	932.0	946.7	932.0	932.0	932.0	932.0
Employee entitlements	627.5	623.1	601.6	611.6	619.3	627.0
Superannuation	282.8	724.1	341.8	391.8	444.8	492.8
Other	142.9	170.6	191.8	191.1	190.2	189.5
Total current liabilities	2 766.7	3 406.3	2 862.7	2 939.6	3 016.5	3 087.8
Non-current liabilities						
Payables	388.2	649.4	372.7	365.8	361.5	357.2
Borrowings	5 781.5	6 117.4	4 292.1	3 955.3	3 025.5	2 412.3
Employee entitlements	1 373.1	1 651.1	1 532.3	1 694.5	1 859.3	2 024.2
Superannuation	11 249.0	11 719.5	11 833.5	11 875.5	11 930.5	11 942.5
Other	272.1	100.7	265.3	258.5	251.6	244.8
Total non-current liabilities	19 063.8	20 238.2	18 295.8	18 149.5	17 428.4	16 981.0
Total liabilities	21 830.5	23 644.6	21 158.5	21 089.1	20 445.0	20 068.8
Net assets	11 980.1	9 222.3	13 366.5	14 065.4	14 768.7	15 596.9

Source: Department of Treasury and Finance

Note:

(a) Includes land, buildings, plant and equipment, roads and other infrastructure, museum collections and other cultural assets, and intangibles.

This projected improvement in the net asset position is largely attributable to the better than expected result for the 1998-99 financial year leading to a higher than expected opening balance as at 1 July 1999. Higher than budgeted operating surpluses have also contributed to an improvement in the budget sector net asset position since the May 1999 Budget. The projected increase in net assets over the forward estimates period reflects the combined impact of a projected decline in budget sector liabilities coupled with steady growth in budget sector non-current physical assets.

As shown in the statement of financial position, total budget sector liabilities are projected to fall from \$21 830.5 million as at the June 1999 to \$20 077.9 million by June 2003. The decline in liabilities comprises an assumed significant decline in budget sector gross borrowings, partly offset by moderate projected growth in unfunded superannuation liabilities and employee entitlements.

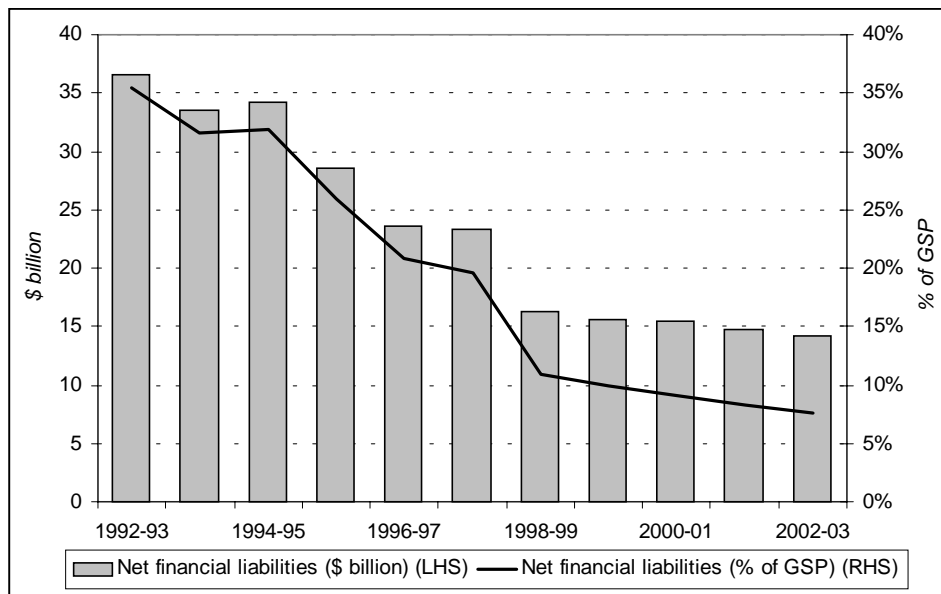
The projected decline in budget sector borrowings shown in the statement of financial position reflects a technical planning assumption whereby projected cash surpluses from operating and investment activities over the forward estimates period are assumed to be applied entirely to reducing budget sector borrowings rather than other liabilities. This planning assumption is also reflected in the projected decline in interest expense shown in the budget sector operating statement and the net proceeds of borrowings shown in the cash flow statement (see Appendix A, *Budget Sector Cash Flow Statement*).

The actual final application of cash surpluses to reduction of budget sector debt and other liabilities may vary from this planning assumption. In addition, the projected cash surpluses assumed to be available for liability reduction are based on an unchanged policy assumption and do not take into account possible costs associated with funding new policy measures that may be implemented in future budgets over the forward estimates period.

As indicated in Section 2, *Financial Strategy*, one of the key elements of the Government's budget strategy is to maintain state government net financial liabilities at prudent levels. Consistent with this objective, budget sector net financial liabilities are expected to decline from \$16.3 billion in June 1999 (10.8 per cent of GSP), to \$14.2 billion by 30 June 2003 (7.6 per cent of GSP) as shown in Chart 4.2. Consistent with the technical planning assumption noted above, the expected decline in net liabilities comprises a projected reduction in general government sector net debt partly offset by moderate growth in unfunded superannuation liabilities.

Appendix A, *Budget Sector Cash Flow Statement*, provides a reconciliation of the budget sector operating surpluses to the change in general government sector net debt over the forward estimates period.

Chart 4.2: Budget sector net financial liabilities ^(a)



Source: Department of Treasury and Finance

Notes:

(a) Comprises general government sector net debt and budget sector unfunded superannuation liabilities.

SECTION 5: ELECTION COMMITMENT IMPLEMENTATION REPORT CARD

- Considerable progress has already been made on implementing election commitments as detailed in Labor's Financial Statement.
- Decisions have been made on most of the proposed savings initiatives and 60 per cent of the planned output initiatives for 1999-2000.

SAVINGS INITIATIVES

Savings initiatives targeted to yield \$45.6 million in 1999-2000 and over \$106 million a year in the longer term to assist in funding new initiatives have been put in place (Table 5.1). The savings are generated mainly from a 1 per cent efficiency dividend on supplies and consumables, a reduction in executive services and a restructure of the Department of Treasury and Finance.

The targeted savings are only marginally below the initial estimates provided in *Labor's Financial Statement* in the longer term, but there is significant variation in 1999-2000 (\$21 million below target) and 2000-01 (\$6 million above target). The variation in the initial years is due to full implementation of the reduction in executives in 2000-01 rather than the staged approach proposed in the statement. The variation in the longer term is because the general 1 per cent efficiency dividend on supplies and consumables now incorporates the public relations savings to avoid the risk of a doubling up of savings from this area.

Each Department is preparing a detailed implementation plan so that they can achieve the targeted savings without any impact on service delivery.

Table 5.1: Outcomes of savings decisions

(\$ million)

<i>Initiatives considered</i>	<i>Labor's Financial Statement Costing</i>				<i>Decision</i>			
	<i>99-00</i>	<i>00-01</i>	<i>01-02</i>	<i>02-03</i>	<i>99-00</i>	<i>00-01</i>	<i>01-02</i>	<i>02-03</i>
Savings initiatives								
1 Government wide								
Reduction in executives	20.0	25.0	35.0	36.0	1.0	36.7	36.9	36.9
Efficiency dividend	44.3	59.3	60.6	62.4	42.4	54.0	52.7	53.7
Public relations savings initiative	1.7	3.0	4.5	4.5	1.7	3.0	4.5	4.5
Total	66.0	87.3	100.1	102.9	45.1	93.7	94.1	95.1
2 Department specific								
Abolition Of Police Board	0.5	1.0	1.0	1.0	0.5	1.0	1.0	1.0
Restructure of Treasury and Finance		9.7	9.9	10.1		9.7	9.9	10.2
Total	0.5	10.7	10.9	11.1	0.5	10.7	10.9	11.1
Total savings initiatives	66.5	98.0	111.0	114.0	45.6	104.4	105.0	106.2
Abolition of Schools of 3 rd Millennium	5.6	1.8	0.0	0.0	Audit of each self-governing-school being undertaken to confirm achievable savings.			

Source: Department of Treasury and Finance; Labor's Financial Statement, The First Term of a Bracks Labor Government

SPENDING INITIATIVES

The initial focus for spending initiatives has been on the high priority areas of health, education and employment and reduction of regional tax imposts (Table 5.2).

Health spending totalling \$17.5 million in 1999-2000 and over \$46 million per year in the longer term has been approved. It will enhance the skills of nurses and promote delivery of health services in the home and community settings.

In education and employment and training, the key initial objectives are to reduce class sizes, assist students with special learning needs and strengthen the financial position of TAFE Institutes. Spending of almost \$40 million in 1999-2000 and over \$100 million per year in the longer term has been agreed to as detailed in *Labor's Financial Statement*.

Funding has been provided to the Department of Natural Resources and Environment to allow the immediate termination of the Catchment Management Levy, which was applied to households in regional Victoria to finance catchment works. In addition, funding has been established for an annual Local

Government Summit and an Office of Rural Communities to improve communications throughout Victoria.

The agreed expenditures are generally in line with *Labor's Financial Statement*. The reasons for the exceptions are as follows:

- Increased expenditure for removal of Catchment Management Levies. The original commitment was to forego the levy revenue for the remainder of 1999-2000, but the Government has now agreed to forego the levy revenue for the whole of the financial year.
- Reduced expenditure for Better Start for Children - 100 school nurses. The program will commence from the beginning of the fourth quarter rather than the third quarter because of the time required to recruit and train the additional nurses.
- Reduced expenditure for Nurses - HECS scholarships for 200 university postgraduate courses. The cost of the program is reduced because of the discount for up front payment of HECS contributions.
- Reduced expenditure for Better Dental Care - extend dental services to all low income Years 9 to 12. The program is to be implemented more slowly based on a staged approach because of the need to use dentists at community dental clinics to provide services pending training of additional school dental therapists.

Table 5.2: Outcome of spending initiative decisions

<i>Initiatives considered</i>	(\$ million)							
	<i>Labor's Financial Statement Costings</i>				<i>Decision</i>			
	<i>99-00</i>	<i>00-01</i>	<i>01-02</i>	<i>02-03</i>	<i>99-00</i>	<i>00-01</i>	<i>01-02</i>	<i>02-03</i>
Department of Human Services								
Better Start for Children - 100 school nurses	1.9	4.0	4.9	5.1	1.6	4.0	4.9	5.1
Nurses - HECS scholarships for 200 university postgraduate courses	0.0	0.7	0.7	0.7	0.0	0.5	0.5	0.5
Nurses - 1 000 nurses specialist postgraduate paid study	0.5	1.6	2.1	2.1	0.5	1.6	2.1	2.1
Nurses - Refresher courses	0.4	0.7	0.7	0.7	0.4	0.7	0.7	0.7
Nurses - Assistance to upgrade Division 2 nurses to Division 1 (registered) nurses	0.2	0.4	0.4	0.4	0.2	0.4	0.4	0.4
Nurses - clinical placements for undergraduate nursing students in rural hospitals	0.1	0.2	0.2	0.2	0.1	0.2	0.2	0.2
Hospital to Home – funding for services such as physiotherapy	1.8	4.5	4.8	5.0	1.8	4.5	5.5	6.0
Hospital to Home – District nursing and home based care services	2.5	4.5	4.8	5.0	2.5	4.5	4.0	4.0
Hospital to Home – Statewide Health Information Call Centre	0.3	0.5	0.5	0.5	0.3	0.5	0.5	0.5
Community Based Health Care	3.9	10.3	11.1	12.0	3.9	10.3	11.1	12.0
Better Dental Care – cutting the cost of full dentures for 12 500 pensioners	0.5	1.0	1.0	1.0	0.5	1.0	1.0	1.0
Better Dental Care – extend dental services to all low income Years 9 to 12	1.5	3.2	3.5	3.9	0.8	2.8	3.5	3.9
Pre-school and childcare - fee subsidy of \$150	2.0	4.0	4.0	4.0	2.0	4.0	4.0	4.0
Pre-school and childcare – community grants	0.3	2.0	2.0	2.0	0.3	2.0	2.0	2.0
Early Intervention – cut waiting lists	0.8	1.8	2.0	2.0	0.8	1.8	2.0	2.0
Early Intervention – increase funding for child protection	1.0	2.0	2.0	2.0	1.0	2.0	2.0	2.0
Total DHS	17.5	41.3	44.6	46.6	16.5	40.8	44.4	46.4
Department of Justice								
Fire Service commitment	0.5	1.0	1.0	1.0	0.5	1.0	1.0	1.0
Emergency Services	0.3	0.5	0.5	0.5	0.3	0.5	0.5	0.5
Total DOJ	0.8	1.5	1.5	1.5	0.8	1.5	1.5	1.5

Table 5.2: Spending initiative decisions (continued)

<i>Initiatives considered</i>	(\$ million)							
	<i>Labor's Financial Statement Costing</i>				<i>Decision</i>			
	99-00	00-01	01-02	02-03	99-00	00-01	01-02	02-03
Department of Natural Resources and Environment								
Boost for EPA funding	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Removal of CMA levies	5.4				14.3			
Sustainable Energy Authority	2.5	5.0	5.0	5.0	1.7	5.8	5.0	5.0
Total DNRE	8.9	6.0	6.0	6.0	17.0	6.8	6.0	6.0
Department of Education Employment and Training								
Class Sizes	12.6	36.4	47.0	40.7	12.6	36.4	47.0	40.7
Special Learning Needs	8.8	17.5	17.5	17.5	8.8	17.5	17.5	17.5
Non Government Schools	5.0	15.0	17.5	20.0	5.0	15.0	17.5	20.0
Student Welfare	6.1	12.2	12.2	12.2	6.1	12.2	12.2	12.2
TAFE (regional differential)	2.1	4.2	4.2	4.2	2.1	4.2	4.2	4.2
TAFE (operating)	5.0	10.0	10.0	10.0	5.0	10.0	10.0	10.0
Total DEET	39.6	95.4	108.4	104.6	39.6	95.3	108.4	104.6
Department of State and Regional Development								
Local Government Summit	0.0	0.1	0.1	0.1	0.0	0.1	0.1	0.1
Office of Rural Communities	0.1	0.2	0.2	0.2	0.1	0.2	0.2	0.2
Total DSRD	0.1	0.2	0.2	0.2	0.1	0.2	0.2	0.2
Department of Premier and Cabinet								
Infrastructure Planning Council	0.2	0.5	0.5	0.5	0.2	0.5	0.5	0.5
Total DOI	0.2	0.5	0.5	0.5	0.2	0.5	0.5	0.5
Parliament								
Auditor-General's Office	2.0	2.1	2.3	2.4	2.0	2.1	2.3	2.4
Total Parliament	2.0	2.1	2.3	2.4	2.0	2.1	2.3	2.4
Department of Infrastructure								
No initiatives considered								
Department of Treasury and Finance								
No initiatives considered								
Total output initiatives	69.1	146.9	163.4	161.8	76.0	147.2	163.2	161.6

Source: Department of Treasury and Finance; Labor's Financial Statement, The First Term of a Bracks Labor Government

SECTION 6: STATEMENT OF RISKS

OVERVIEW

The forward estimates of revenue and outlays detailed in the *Mid Year Budget Review* incorporate assumptions and assessments based on information available at the time of publication. The actual outcomes in future years will be influenced by the extent to which these assumptions and assessments prove to be accurate. This risk assessment aims to improve transparency of the fiscal projections by articulating the extent to which the outcomes are affected by variations in the underlying assumptions.

Factors that could have a significant impact on the fiscal outcome include:

- changes in economic parameters such as GSP, employment, wages, prices and interest rates;
- fiscal risks associated with occurrence of identifiable events which affect specific revenues or expenditures but which are of uncertain likelihood or timing; and
- the realisation of contingent liabilities.

ECONOMIC OUTLOOK

There are a number of upside and downside risks to the economic outlook which are discussed in more detail in Section 3. They include:

- the possibility of higher wage price inflation following the introduction of the GST, which would adversely affect employment and business investment;
- a sharper rise in US interest rates than generally expected, a downward correction in US asset market prices, or a stalling in the East Asian recovery which would also tend to restrain national and Victorian growth;

- temporary financial market effects from the Y2K problem; and
- higher net interstate migration into Victoria, which would contribute to a stronger outlook for Victorian activity and employment.

IDENTIFIABLE EVENTS

Fiscal risks may be fairly general, for example unforeseen changes in the Victorian population, or very specific such as unplanned growth in the number of public patients requiring a particular hospital procedure. These can be further broken down into factors, which could impact, on all government Departments and those which are department-specific.

Taxation revenue

Most revenue risks relate to state taxation revenues rather than departmental fees and charges.

There is a general upside and downside risk to the taxation revenue forecasts arising from the capacity of the Victorian economy to grow faster or slower than forecast. The rate of economic growth affects most of the State's taxes.

In addition, there are several sources of more specific risk to the State's taxation revenues. Some revenues are sourced from markets which are subject to cyclical volatility. For example, stamp duty on conveyances is subject to the variability of the housing and other property markets. The forecasts of this revenue item are based on careful assessments of the outlook for property markets, but unexpected slowdowns or strength in the property market can cause the forecasts to be revised at a later date. The motor vehicle market is also affected by similar cyclical variability, thus subjecting the forecasts of registration fees and stamp duty on motor vehicle transfers to the potential for revision.

Furthermore, the impact of the GST, the abolition of the wholesale sales tax and other aspects of national tax reform have increased the difficulty of forecasting property and motor car taxes in 1999-2000 and later years.

The presence of "high roller" gamblers at the casino can vary substantially and often unpredictably, introducing another source of upside and downside risk in the revenue forecasts.

There is also a specific short-term risk to State revenue. The State Revenue Office has a contingent liability of around \$93 million relating to the possible outcome of the current appeal against the Supreme Court's decision of 1998 in the case of *Drake Personnel v. Commissioner of State Revenue* in the area of payroll tax.

General expenditures

The main general factors which could increase expenditures above those allowed for in the forward estimates are unplanned increases in wage rates and prices.

Departmental expenditures

The main risks to departmental expenditures relate to the Departments with the largest budgets: Human Services; Education, Employment and Training; and Justice.

Key services provided by the Department of Human Services such as acute care in public hospitals are experiencing strong demand growth which could increase the level of service provision above that which is currently funded. The budget currently assumes demand growth of 3 per cent a year. National tax reform will have a significant impact on concessions available to not-for-profit organisations which are funded to provide a wide range of services such as aged care, community services and disability services. There is a risk that this will require unplanned additional funding of these organisations by the Department.

The Department of Education, Employment and Training has a number of pressures relating to maintenance and replacement of school and TAFE infrastructure, particularly buildings and IT equipment. The Department is developing comprehensive strategies and management plans to address these issues, but there is a risk that additional funding will be required.

The Justice portfolio is experiencing a significant increase in prison population and subsequently an increase in demand for prison capacity. This is being managed in the short term through strategies such as double bunking, but the capacity to defer more permanent approaches until future years is uncertain.

The 1999-2000 fire season is expected to be more serious than usual. This could potentially impact on expenditure by emergency services in the Justice portfolio and on the Department of Natural Resources and Environment in relation to public land management.

The Department of Infrastructure has a number of risks associated with rail privatisation and public transport services. The most significant of these relates to the funding of the Melbourne City Link Authority caused by delays in the completion of the project.

ACCOUNTING POLICY - NATIONAL TAX REFORM TRANSITIONAL ARRANGEMENTS

Under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA) the Commonwealth Government has guaranteed that States' cash budgetary positions will be no worse off after the implementation of the national taxation reforms. This guarantee will be achieved by the Commonwealth providing transitional payments to the States to remedy any net shortfall in GST revenues. Under the IGA, part of the transitional payments in 2000-01 will take the form of a loan by the Commonwealth to affected States repayable in 2001-02. Under the IGA, the Commonwealth has also undertaken to provide additional transitional grants in 2001-02, where necessary, to ensure that States have the capacity to repay the transitional loan in that year.

The projected impact of national taxation reform on the Victorian budgetary position is discussed in Section 4, Budget Position and Outlook. Under current projections, Victoria is expected to receive a transitional loan from the Commonwealth of \$320.4 million in 2000-01 and a corresponding increase in transitional grants in 2001-02 to enable the State to extinguish the loan in that year.

The budget estimates published in this document are framed on the assumption, consistent with accounting standards, that the receipt of the transitional loan in 2000-01 gives rise to a grant payment receivable in the following year. Under this approach, an amount equivalent to the transitional loan is recorded as revenue in 2000-01 (receivable as a cash grant in the subsequent year).

In the event that the receivable is not recognised, total GST revenue and the budget sector operating surplus will be \$320.4 million lower in 2000-01 and \$320.4 million higher than current budget projections in 2001-02.

CONTINGENT LIABILITIES

A number of non-quantifiable commitments have been made by the Government arising from:

- indemnities provided in relation to transactions, including financing arrangements and consultancy services, as well as for directors and administrators;
- performance guarantees, warranties, letters of comfort, and the like; and
- deeds in respect of certain obligations of the Docklands Authority.

In addition, there are potential liabilities associated with sales by the Government of a number of assets and services where the purchaser was provided with various indemnities and warranties. These are discussed in detail below.

Automated ticketing

In May 1994 the Public Transport Corporation (PTC) entered into contracts with the OneLink Consortium which will provide automated ticketing and fare collection services to the PTC for its metropolitan public transport services over a period of ten years. Payments under the Automated Ticketing Service (ATS) contract will be in the order of \$300 million over the term of the contract, on a performance basis. The Treasurer has guaranteed the payment obligations of the PTC under the Service Contract.

Service delivery commenced in 1997 and was brought up to agreed metropolitan coverage and performance in 1998. The service provider has a contractual right to claim compensation for certain scope changes such as those due to public transport reform and the privatisation of the PTC.

Land remediation – environmental concerns

A number of 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 development taking place.

Melbourne City Link

In October 1995 the State entered into a contractual agreement with Transurban City Link Limited for the design, construction, financing and operation of the Melbourne City Link. The *Melbourne City Link Act 1995* provides the Government with the powers necessary to implement the Melbourne City Link project and also ratified and enacted as law the Concession Deed (and Exhibits).

The negotiation of the Concession Deed was conducted on a commercial basis and as such, assumed certain 'ground rules'. In accordance with normal commercial practice, should these ground rules be varied, for example, by legislation or policy changes, there are provisions outlining various means for Transurban, in certain circumstances, to claim redress for any financial disadvantages it suffers.

Under the arrangements, the State is responsible for acquiring and paying for the land necessary for the project to proceed, paying for certain state works and

general project costs. Funds necessary for these responsibilities have been made available to the Melbourne City Link Authority (MCLA) for 1995-96 through to 1998-99 and are in the budget of the MCLA for the 1999-2000 year. While virtually all land has been acquired, the final compensation payable is subject to resolution in some instances. The balance of the state works will be funded by allocations to the MCLA in 1999-2000.

In a project of the size of the Melbourne City Link, it is to be expected at any point of time that there will be a range of issues under discussion between the parties. A 'Heads of Agreement' has been reached between the parties covering all Southern Link construction issues and settlement is anticipated by the end of 1999. Additionally, numerous matters remain in the negotiation/determination phase in an effort to agree the ultimate level of compensation for land acquisitions. There are also numerous outstanding property claims against the MCLA. There is currently a formal tortious action against the MCLA by a private occupier of land acquired for the purposes of the project.

Exhibition Street Extension Project

On 30 June 1997, the Government ordered a variation to the City Link Project under clause 2.4 of the Concession Deed, providing for a connecting road from the Punt Road interchange of the project to a road to be built extending Exhibition Street across the Jolimont rail yards to Batman Avenue near the Swan Street intersection.

Transfield-Obayashi Joint Venture is delivering the 'Punt Road' end of the project (Section 1), and VicRoads is coordinating delivery of the city end of the project (Section 2). Both projects together are known as the Exhibition Street Extension Project. The project is funded by Transurban and its subsidiary City Link Extension Pty Ltd. The city end was opened for the public, without tolls, at the end of October 1999.

Although largely completed, full functionality will only be achieved when the Burnley Tunnel section of the Southern Link is opened and the Swan Street/Batman Avenue intersection can be remodelled to accommodate the integration of the two sections. This is not expected to occur before the second quarter of 2000, and the city section will remain toll free until then.

Risks borne by the State in both City Link and the Exhibition Street Extension Project are detailed in the legislation and Concession Deed for the projects.

Native Title

A number of claims have been filed with the Native Title Tribunal under the *Native Title Act 1993* which affect Victoria. Those claims are in the course of being processed. It is inappropriate at this stage to form any view as to the likely success of any such claim and impossible to quantify any future liability.

Victorian Managed Insurance Authority

The Government established the Victorian Managed Insurance Authority (VMIA) in 1996 primarily as a captive insurer for Departments and participating bodies (predominantly budget sector bodies). The VMIA has provided industrial special risks covers, public and products liability covers and contract works covers to Departments and participating bodies. VMIA has obtained reinsurance in the private market for excess of loss on industrial special risks covers between \$50 million and \$1 billion for all losses arising out of any one event and excess of loss on contract works and public and products liability covers between \$50 million and \$600 million in respect of any one occurrence. The risk outside this cover, relating to external parties, is borne by the State.

Gas supply incident

The State and a number of its instrumentalities have been named as cross respondents in a representative proceeding before the Federal Court arising from the fire and explosion at Esso's gas processing plant at Longford. The proceeding was instituted against Esso Australia Ltd and Esso Australia Resources Ltd (together 'Esso') on behalf of gas users and stood-down workers who are alleged to have suffered losses during the incident.

Esso has in turn cross claimed against the State and a number of its instrumentalities. The State and its instrumentalities have denied any liability in respect of Esso's cross claim and are vigorously defending the cross claim. The State and a number of its instrumentalities have also issued a further cross claim against BHP Petroleum (Bass Strait) Pty Ltd for contribution and indemnity.

There is a dispute with insurers as to the extent of insurance cover. A claim has been made for indemnity by a number of the State's instrumentalities.

A further proceeding has been commenced in the Supreme Court of Victoria against some of the State's instrumentalities, but no document has been served. A further proceeding in the County Court against some of the State's instrumentalities is in the process of being resolved.

Singapore consultancy

Proceedings were commenced in the Supreme Court by McConnell Dowell South East Asia Pty Ltd and McConnell Dowell Holdings Pty Ltd claiming damages from the SECV, Gas Transmission Corporation and Gascor in relation to consultancy services provided by Gas and Fuel Corporation of Victoria to the Public Utilities Board of Singapore (now PowerGas) in connection with a transmission pipeline project in Singapore. Whether or not this claim proceeds may depend on the outcome of a claim by McConnell against PowerGas in Singapore under a pipeline construction contract whereby McConnell was engaged by PowerGas to construct the pipeline. Gascor, Gas Transmission Corporation and the SECV deny liability with respect to these claims.

Transmission of business under section 149 of the *Workplace Relations Act 1996*

As a result of the outsourcing of government functions, contractors now performing those functions following acceptance of their tenders, have sometimes engaged staff on lesser rates and conditions than those which previously applied under awards for public sector employees. Recent Federal Court decisions have indicated that previous award rates and conditions may apply to the contractor's employees performing what was previously a government function. The application of this principle requires transfer of part of the business (of the Government) and the test which is generally applied is whether there is a 'substantial identity' between the activities before and after the outsourcing. If applicable, the principle would generally cause increases in employment costs for the contractor. The Federal Court decision is subject to an application for leave to appeal to the High Court by the State of Victoria. The financial implications on the State of the transmission of business applications under the *Workplace Relations Act* are unclear pending the appeal.

APPENDIX A: BUDGET SECTOR CASH FLOW STATEMENT

CASH FLOW STATEMENT

Table A1 provides a summary projected cash flow statement for the revised 1999-2000 and the forward estimates period to 2002-03.

Net cash flow from operating activities is now expected to be \$2 322.9 million in 1999-2000 compared with the published estimate of \$1 241.2 million. The \$1 081.7 million increase reflects a \$1 016.7 million increase in operating receipts and a \$65.0 million decrease in payments in relation to operating activities. By way of comparison, the revised 1999-2000 accrual operating surplus is expected to increase by \$592.1 million, as reported in Section 4, *Budget Position and Outlook*.

The difference between the increase in the revised 1999-2000 net cash flows from operating activities of \$1 081.7 million and the corresponding smaller increase in the operating surplus of \$592.1 million, is mainly attributable to lower than budgeted cash superannuation payments in 1999-2000. This is due to the bringing forward to 1998-99 of payments made to the State Superannuation Fund (originally budgeted for 1999-2000) to reduce the State's unfunded superannuation liability.

All other operating activity items are broadly in line with the changes to the operating statement since the Budget.

There are no significant changes to net cash flows from investing activities since the published budget estimates. However, as a result of the larger than expected cash surplus from operating activities, projected 1999-2000 net repayment of borrowings have increased by \$1 081.9 million.

Table A1: Budget sector cash flow statement

	(\$ million)				
	1999-00 Budget	1999-00 Revised	2000-01 Estimate	2001-02 Estimate	2002-03 Estimate
Taxation	8 690.4	8 995.1	7 563.4	7 191.0	7 512.0
Regulatory fees and fines	246.6	274.0	270.3	234.6	237.7
Public authority income	726.2	1 032.0	687.3	475.8	403.5
Grants	7 606.6	7 612.9	9 489.4	11 051.3	11 083.5
Sale of goods and services	1 810.4	1 810.4	1 817.2	1 831.4	1 852.0
Interest received	54.0	51.0	48.1	48.4	48.8
Other receipts	396.6	772.0	752.2	748.2	747.3
Total receipts from operating activities	19 530.7	20 547.4	20 628.0	21 580.8	21 884.8
Employee entitlements	7 285.6	7 305.2	7 494.5	7 715.7	7 988.2
Superannuation	1 262.4	794.0	1 367.8	1 424.8	1 504.1
Grants	3 307.7	3 478.1	3 236.4	3 179.0	3 246.6
Supplies and consumables	5 901.7	6 215.0	6 714.8	6 796.9	6 926.0
Interest and other finance costs	532.1	432.3	389.4	336.7	284.8
Other payments	..	..	..	..	..
Total payments from operating activities	18 289.5	18 224.5	19 203.0	19 453.2	19 949.8
Net cash flows from operating activities ^(a)	1 241.2	2 322.9	1 425.0	2 127.6	1 935.0
Net customer loans repaid	100.2	100.2	100.1	100.1	100.1
Net proceeds from investments	50.3	27.3	28.5	28.9	24.0
Term and fixed deposits	0.0	0.0	- 0.2	- 0.1	- 0.0
Net privatisations proceeds	..	..	..	..	..
Sale of fixed assets	132.2	132.2	121.1	93.3	76.8
Purchase of fixed assets	-1 123.6	-1 100.4	-1 317.6	-1 397.2	-1 492.8
Other	0.3	0.3	0.0	0.0	0.0
Net cash flows from investing activities ^(a)	- 840.6	- 840.4	-1 068.0	-1 174.9	-1 291.8
Net proceeds of borrowings	- 399.3	-1 481.3	- 328.6	- 919.0	- 602.4
Other	..	..	..	..	..
Net cash flows from financing activities ^(a)	- 399.3	-1 481.3	- 328.6	- 919.0	- 602.4
Net increase in cash held	1.3	1.3	28.3	33.7	40.8
Cash at beginning of reporting period	836.4	574.6	575.9	604.2	637.9
Transitional adjustments against opening cash balance	..	..	..	..	..
Cash at end of reporting period	837.7	575.9	604.2	637.9	678.8

Source: Department of Treasury and Finance

Note:

(a) A negative figure denotes a cash outflow.

Consistent with the planning assumption discussed in Section 4, *Budget Position and Outlook*, the projections assume that cash surpluses from operating and investing activities over the remainder of the forward estimates period are applied to repay budget sector borrowings. As noted in Section 4, the actual final application of cash surpluses to reduction of budget sector debt and other liabilities may vary from this planning assumption.

RECONCILIATION – OPERATING RESULT TO NET DEBT

Table A2 provides a reconciliation of the projected budget sector operating surplus to the change in general government sector net debt over the forward estimates period (as shown in Appendix D, *Uniform Presentation of Government Finance Statistics and Loan Council Allocation – Victoria 1999-2000*).

Table A2: Reconciliation – operating surplus to change in net debt

	(\$ million)			
	1999-00	2000-01	2001-02	2002-03
	Revised	Estimate	Estimate	Estimate
Budget sector operating surplus	1 435.8	699.3	703.7	828.2
Plus: net non-cash expenses	887.0	725.7	1 423.9	1 106.9
Net cash inflow from operating activities	2 322.9	1 425.0	2 127.6	1 935.0
Less: net cash outflow from investment activities	840.4	1 068.0	1 174.9	1 291.8
Total cash surplus available for financing activities	1 482.5	357.0	952.7	643.2
Less increase in cash held	1.3	28.3	33.7	40.8
Decrease in gross debt	1 481.3	328.6	919.0	602.4
Plus: increase in financial assets				
Cash	1.3	28.3	33.7	40.8
Customer loans repaid	- 100.2	- 100.1	- 100.1	- 100.1
Other financial assets and net coverage differences	- 16.7	- 17.0	- 38.4	- 12.6
Increase in financial assets	- 115.6	- 88.8	- 104.8	- 71.8
Decrease in general government sector net debt	1 365.7	239.8	814.1	530.6

Source: Department of Treasury and Finance

APPENDIX B: SPECIFIC POLICY INITIATIVES AFFECTING BUDGET POSITION

GOVERNMENT-WIDE INITIATIVES

Table B1: New initiatives – Government wide

	(\$ million)			
	1999-00	2000-01	2001-02	2002-03
Efficiency dividend	-44.1	-57.0	-57.2	-58.2
Reduction in executive roles in the Victorian Public Service	-1.0	-36.7	-36.9	-36.9
Total	-45.1	-93.7	-94.1	-95.1

Efficiency dividend

Departments have been given targets for savings in expenses of 1 per cent dividend (0.75 per cent in 1999-2000). This saving is to be achieved through the application of an efficiency dividend to the budget sector supplies and consumables expense base (excluding unallocated reserves) and a reduction in public relations staff and expenditures.

Departments are currently developing detailed implementation plans to identify how the savings can be achieved with minimum impact on service delivery.

The savings partially offset the cost of implementing election commitments. The objective of the policy is to achieve efficiency savings by eliminating waste and mismanagement.

Reduction in executive roles in the Victorian Public Service

The Government proposed to reduce the ratio of executives to other public servants across the Victorian Public Service back to its 1992 level (a reduction

of 237 positions) to achieve annual recurrent savings of approximately \$36 million phased in over four years. The Government has adopted a flexible approach to achieving the desired savings — a reduction of 116 in the number of executive positions is to be implemented this year and savings targets of slightly over \$36 million are to be fully achieved from 2000-01 through high quality savings strategies.

Department financial estimates have already been reduced to reflect the efficiency savings, with detailed implementation plans to be considered by the Government through the budget process. The savings have been used to partially offset the cost of implementing election commitments.

EDUCATION, EMPLOYMENT AND TRAINING

Table B2: New initiatives – Department of Education, Employment and Training

	(\$ million)			
	1999-00	2000-01	2001-02	2002-03
Reduce Class Sizes – recruitment of teachers	12.6	36.4	47.0	40.7
Reduce Class Sizes – capitals funds for classrooms	2.5	24.5	5.0	0.0
Special Learning Needs – boost in resources	8.8	17.5	17.5	17.5
Support for Non Government Schools	5.0	15.0	17.5	20.0
Student welfare in secondary schools	6.1	12.2	12.2	12.2
TAFE – regional differential funding	2.1	4.2	4.2	4.2
TAFE – increased recurrent funding	5.0	10.0	10.0	10.0
Total DEET	42.1	119.8	113.4	104.6

Source: Department of Treasury and Finance

Reduce Class Sizes – recruitment of teachers

Class sizes for Prep to Year 2 (P-2) will be reduced to an average of 21 students to improve student learning outcomes in the areas of literacy and numeracy. The funding provides for the recruitment of extra teachers.

Reduce class sizes – capitals funds for classrooms

Capital funds have been approved to provide additional classrooms to reduce class sizes for Prep to Year 2 (P-2).

Special Learning Needs – boost in resources

The Special Learning Needs initiative provides funds for the employment of additional teachers and professional staff to boost current programs, including funding for Disabilities and Impairment, and Shared Specialist Teachers in Rural schools programs.

Support for Non-Government Schools

The funding is to improve learning outcomes in non-government schools through targeted additional recurrent resources.

Student welfare in secondary schools

Additional funding will be provided to secondary schools to employ student welfare coordinators to support students at risk, address behavioural and learning problems and support school responses to problems such as truancy, drug use and suicide risk.

TAFE – regional differential funding

The provision of additional funding for regional TAFE Institutes gives a more secure funding base to account for additional on-costs faced in regional areas. The per capita funding differential model will provide for funding adjustments to ensure TAFE Institutes are equitably funded.

TAFE – increased recurrent funding

The provision of increased funding for TAFE Institutes is to allow them to better meet the training needs of Victorians. Further review is being undertaken to determine the adequacy of funding to ensure a long-term solution to the resourcing of TAFE Institutes.

HUMAN SERVICES

Table B3: New initiatives – Department of Human Services

	(\$ million)			
	1999-00	2000-01	2001-02	2002-03
Nucelic acid blood testing	1.9	2.0	2.0	2.0
Better start for children and young people	1.6	4.0	4.9	5.1
Pre-schools and childcare	2.3	6.0	6.0	6.0
Retaining and recruiting nurses in the public sector	1.2	3.4	3.91	3.9
Hospital to Home program	4.5	9.5	10.0	10.5
Community based health care	3.9	10.3	11.1	12.0
Better Dental Care	1.3	3.8	4.5	4.9
Cut waiting lists for early intervention services	0.8	1.8	2.0	2.0
Early Intervention – increased funding for child protection	1.0	2.0	2.0	2.0
Total DHS	18.5	42.8	46.4	48.4

Source: Department of Treasury and Finance

Nucelic acid blood testing

Funding is for nucelic acid blood testing (NAT) of fresh blood products for HIV and Hepatitis C. NAT testing of fresh blood products is a more stringent test for HIV and Hepatitis C and is to be introduced across Australia by the Australian Red Cross Blood Service no later than 1 April 2000.

Better start for children and young people

Funding is for an additional 100 school nurses and other health professionals in all educational regions over the next four years as a health surveillance service focussing on disadvantaged secondary schools. Nurses will initially be placed in areas of greatest need, including areas of high drug and alcohol abuse by young people.

Pre-schools and childcare

Funding is to enable all children to have access to pre-school education and to maintain and improve the quality of pre-school programs and facilities. Initiatives include a subsidy of \$150 for four-year-olds in pre-schools or childcare centres from low-income families who are in receipt of a Commonwealth Health Care Card and grants to community based childcare centres.

Retaining and recruiting nurses in the public sector

A range of educational initiatives will address current problems in recruiting and retaining specialist nurses in Victoria, including re-entry programs, rewarding nurses with specialist qualifications and subsidising nurses to undertake postgraduate study.

Hospital to Home program

Additional funding for the Hospital to Home program aims to keep people out of hospital by providing more appropriate care in the community. Funding has been provided for initiatives including discharge planning, district nursing, home based care and allied health services. Additional funding has also been provided to enable hospitals to provide a single point of authoritative advice by telephone to recently discharged patients.

Community based health care

Additional funding is to strengthen community based health care by enhancing integration and coordination of health care services, improving information to consumers and providing an increased focus on health promotion. Initiatives include expansion of information, counselling and assessment services; promotion activities which prevent chronic illness; staff development and training and the development of Regional Community Health Plans.

Better Dental Care

Initiatives will enhance access to public dental care including, cutting the cost of full dentures for 12 500 pensioners and low income earners from \$180 to \$100, and extending school dental services to all low income young people in Years 9 to 12.

Cut waiting lists for early intervention services

Early intervention services promote the health, well being and development needs of children. This initiative will increase funding for specialist allied health services for children under six years of age with a disability.

Early Intervention – increased funding for child protection

Additional funding will be provided to improve the response to children and families referred to child protection services.

INFRASTRUCTURE

Table B4: New initiatives – Department of Infrastructure

	<i>(\$ million)</i>			
	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
Passenger rail transport franchising	30.8	59.4	71.2	-1.1
Total DOI	35.5	59.4	71.2	-1.1

Source: Department of Treasury and Finance

Passenger rail transport franchising

The funding increase is for payments to passenger rail transport franchise holders following the decision of the previous government to franchise passenger rail transport from September 1999. It reflects the government subsidisation of rail services and commitments under the contracts for franchisees to significantly increase service levels and undertake major capital expenditures on rail infrastructure.

JUSTICE

Table B5: New initiatives – Department of Justice

	(\$ million)			
	1999-00	2000-01	2001-02	2002-03
Preparation for the 1999-2000 fire season	3.4	0.0	0.0	0.0
Fire services	0.5	1.0	1.0	1.0
Emergency Services (State Emergency Service – VicSES)	0.3	0.5	0.5	0.5
Victorian County Court project	0.0	0.0	11.1	11.0
Prison expansion program	3.5	5.3	7.6	12.1
Abolition of Police Board - savings	-0.5	-1.0	-1.0	-1.0
Total DOJ	7.2	5.8	19.2	23.6

Source: Department of Treasury and Finance

Preparation for the 1999-2000 fire season

Additional funding has been provided to the Country Fire Authority for the 1999-2000 fire season, which is expected to be more severe than average. Forest fuels are drier than usual and the risk of fires being ignited by lightning has significantly increased. The additional funding is to cover costs associated with the provision of specialist fire fighting aircraft over the 1999-2000 fire season.

An additional \$11.2 million has also been provided to the Department of Natural Resources and Environment for extra fire services for public land (see Table B6 for more details).

Fire services

Funding has been provided to create a 'relief fund' for the Country Fire Authority volunteers primarily for the purchase of protective clothing and equipment.

Emergency Services (State Emergency Service – VicSES)

Funding has been provided to create a 'relief fund' for the Victorian State Emergency Services (VicSES) volunteers and units primarily for the purchase of protective clothing, equipment and the provision of training.

Victorian County Court project

The Victorian County Court Project will deliver an intelligent and modern court complex consisting of 46 courtrooms. It is anticipated that the complex will commence operations in December 2001. The project will enable shorter case preparation time and trial times; a 10 per cent improvement in throughput; and improved safety and security for the public, witnesses, jurors, victims, judges and staff. Regional access will be boosted via internet, video conferencing and better circuit management.

Prison expansion program

The additional funding will partially alleviate the short-term demand on prison accommodation by an expansion of the Women's prison (50 places) and new specialist facilities at Port Phillip prison (34 places). The funding will also relieve pressure through additional temporary places while the longer-term future of Victoria's prison system is finalised.

Abolition of Police Board – savings

The incoming government considered that the Police Board was an unnecessary duplication of advice available from other internal sources and as a result it has been abolished. The savings generated will assist in funding other government initiatives.

NATURAL RESOURCES AND ENVIRONMENT

Table B6: New initiatives – Department of Natural Resources and Environment

	(\$ million)			
	1999-00	2000-01	2001-02	2002-03
Maintenance of forest logging roads	4.4	3.5	3.5	2.5
Boost for EPA funding	1.0	1.0	1.0	1.0
Abolition of the Catchment Management Levy – short term funding	14.3	0.0	0.0	0.0
Establishment of the Sustainable Energy Authority (from Energy Efficiency Victoria) and boost programs	1.7	5.8	5.0	5.0
Ovine Johne's Disease eradication	7.7			
Preparation for the 1999-2000 fire season	11.2	0.0	0.0	0.0
Total DNRE	40.3	10.3	9.5	8.5

Source: Department of Treasury and Finance

Maintenance of forest logging roads

Funding has been provided to maintain forest logging roads. The payment represents a reclassification of funding which had originally been provided to the Department as a net addition to the its asset base. It appropriates back to the Department forest logging road fees paid into consolidated revenue by logging companies.

Boost for Environment Protection Authority funding

The additional funding is provided to enable the Environment Protection Authority to adopt enhanced monitoring and tougher enforcement of illegal dumping and waste discharges so as to reduce waste and pollution and improve environmental standards.

A skilled audit team will be established to investigate illegal dumping practices, with specialised legal support provided for prosecution. Additional resources

comprise additional motor vehicles, protective clothing, field and office equipment, PC systems for matching on ground intelligence with the existing waste tracking system, aerial surveys, analytical and specialist support services and formal enforcement training and accreditation.

Abolition of the Catchment Management Levy – short-term funding

Short term funding is to allow the immediate termination of the Catchment Management Levy, which was levied on households in regional Victoria to finance catchment works, pending provision of ongoing funding arrangements.

The original commitment was to forego the levy revenue for the remainder of 1999-2000, but the Government has now agreed to forego the levy revenue for the whole of the financial year.

Establishment of the Sustainable Energy Authority (from Energy Efficiency Victoria) and boost programs

A Sustainable Energy Authority of Victoria (SEAV) will be established by reforming Energy Efficiency Victoria. The SEAV will pursue a comprehensive strategy for the development of renewable energy options and improved energy efficiency to reduce greenhouse gas emissions and lower energy costs for Victorian energy consumers.

The SEAV will develop greater consumer awareness of the benefits of sound environmental products; require electricity retailers to produce greenhouse gas reduction strategies; provide repayable capital grants to households wishing to install solar hot water systems; establish a Greenhouse Rating Scheme for commercial buildings and assist government departments to identify cost effective opportunities for improving energy efficiency; support the development of carbon trading; and set targets to expand programs to generate electricity from renewable sources.

Ovine Johne's Disease eradication

In December 1996 the Department commenced an eradication program of Ovine Johne's Disease in Victoria, involving destocking or quarantining. It was anticipated at the time that the disease would not be widespread and so destocking was adopted as the eradication strategy. The *Livestock Control Act 1994* requires the Treasurer to fund compensation payments for destocking. The

Sheep and Goat Compensation Fund, funded via stamp duty levied on sheep sales was established to cover the cost of compensation.

The prevalence of Ovine Johne's Disease has increased and compensation payments now exceed the revenue collected from the levy. The additional funding is to allow the Fund to meet the outstanding compensation commitments.

Preparation for the 1999-2000 fire season

A more severe than usual fire season is anticipated for 1999-2000 due to below average rainfall over the last three years. Drought index levels indicate the potential for high to extreme forest fire damage this season.

The Department is currently undertaking enhanced preparations in expectation of a higher than average number of wildfires over a longer than normal season. The additional funding is for hiring and training extra firefighters and for the provision of extra stores, materials and specialised firefighting aircraft.

An additional \$3.4 million has also been provided to the Country Fire Authority for extra fire services for private land.

STATE AND REGIONAL DEVELOPMENT

Table B7: New initiatives – Department of State and Regional Development

	(\$ million)			
	1999-00	2000-01	2001-02	2002-03
Local Government Summit	0.0	0.1	0.1	0.1
Office of Rural Communities	0.1	0.2	0.2	0.2
Payment to the Patriotic Funds Council of 1999 ANZAC Day proceeds	0.4	0.0	0.0	0.0
Total DSRD	0.5	0.3	0.3	0.3

Source: Department of Treasury and Finance

Local Government Summit

The initiative will establish an annual summit of mayors and shire presidents from regional and rural Victoria to consider ways of addressing common concerns.

Office of Rural Communities

The existing Office of Rural Affairs is to be upgraded and strengthened and re-established as the Office of Rural Communities. The additional resources will increase rural access to Government through new consultation processes.

Payment to the Patriotic Funds Council of 1999 ANZAC Day proceeds

Each year the proceeds from sporting bodies collected on ANZAC Day are donated to the Patriotic Funds Council. Most of the funds are initially received by the Victorian Casino and Gaming Authority and paid into consolidated revenue. This funding will allow the Department to provide an equivalent amount to that collected to the Council.

As the proceeds are dependent upon a variety of factors including the amount of activity taking place on the day and the day of the week ANZAC Day falls, it is not possible to include a fixed amount in the Department's budget.

TREASURY AND FINANCE

Table B8: New initiatives – Department of Treasury and Finance

	(\$ million)			
	1999-00	2000-01	2001-02	2002-03
Audit Victoria – capital requirements	5.0	0.0	0.0	0.0
West Melbourne Gasworks remediation works		15.9		
Restructure of the Department of Treasury and Finance	0.0	-9.7	-9.9	-10.2
Total DTF	5.0	6.2	-9.9	-10.2

Source: Department of Treasury and Finance

Audit Victoria – capital requirements

Grant funding was provided to *Audit Victoria* to improve its statement of financial position so as to enable it to strengthen its financial position and achieve the objectives of its corporate plan.

West Melbourne Gasworks remediation works

Funding was provided to cover the cost of the remediation and clean up of land at Docklands previously occupied by the West Melbourne Gas Works to enable the development of the Victoria Harbour Precinct. This funding is to be offset by the receipt of revenue from the SECV Shell, which holds funds for remediation liabilities for sites previously owned by the SECV and Gas and Fuel Corporation.

Restructure of the Department of Treasury and Finance

A Government election commitment was to restructure the Department to achieve \$10.2 million in on-going savings from 2002-03 and a reduction of 130 staff over three years. Savings are to be achieved through the reduction or cessation of activities that are not a priority of the Government and the introduction of enhanced technology.

DEPARTMENT OF PREMIER AND CABINET

Table B9: New initiatives – Premier and Cabinet

	<i>(\$ million)</i>			
	1999-00	2000-01	2001-02	2002-03
Infrastructure Planning Council	0.2	0.5	0.5	0.5
Total DPC	0.2	0.5	0.5	0.5

Source: Department of Treasury and Finance

Infrastructure Planning Council

An Infrastructure Planning Council comprising representatives from business, including small business, unions, regional Victoria and State and local government is being established to co-ordinate and prioritise investment decisions across Victoria according to need. The funding is to meet the administrative costs including provision of secretariat services and travel costs of Council members.

PARLIAMENT

Table B10: New initiatives – Parliament

	<i>(\$ million)</i>			
	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
Auditor-General's Office	2.0	2.1	2.3	2.4
Total Parliament	2.0	2.1	2.3	2.4

Source: Department of Treasury and Finance

Auditor-General's Office

The Government is committed to restoring the powers of the Auditor-General and repeal of the Audit Amendment Act. The additional funding is to assist with the expenses associated with the re-absorption of Audit Victoria into the Victorian Auditor-General's Office and the restoration of the powers of the Auditor-General.

APPENDIX C: BUDGET SECTOR YEAR-TO-DATE ACTUALS

The operating result for the budget sector for the four months ending October 1999 was a surplus of \$1 053.4 million, compared with a revised estimated operating surplus for the whole of 1999-2000 of \$1 435.8 million. Comments on the revised forecast for 1999-2000, relative to the budgeted operating result of \$128.7 million, are included in Section 4. This revision takes into account the result to the end of October and the revised expectations for the remainder of the financial year.

REVENUE

Total revenue received in the financial year to end October 1999 was \$7 360.3 million or 34.7 per cent of the revised estimate for 1999-2000 as a whole. This year-to-date information includes the recognition of the State's right to public transport services in future years valued at \$715 million resulting from the franchising of the passenger rail transport services. The impact of this revenue on the revised operating result has been partly offset by the increase in amortisation expense associated with the asset over the remainder of the year.

Stronger than expected economic conditions are reflected in the level of taxation revenue to the end of October and the revised forecasts for 1999-2000. Expected income from public authorities has also been increased for a similar reason but will not be reflected in the State's accounts until receipt later in the financial year.

Other revenue has been revised upward mainly because of the changed accounting treatment of some \$389 million of capital assets charge associated with the charge on rail transport services prior to the introduction of the franchising arrangements. This has no net effect on the year-to-date result or on the revised net outcome for the year since a similar amount has also been expensed as a current grant to the public trading enterprise sector.

EXPENSES

Total expenses incurred in the four months to end October 1999 were \$6 306.9 million or 31.9 per cent of the revised estimate for 1999-2000 as a whole. This year-to-date figure is in line with expectations, after taking into account seasonal factors affecting departmental operating expenses.

As mentioned above, the grossing up of the capital assets charge on transport assets, classified as a current grant, is the main reason for the projected increase in total expenses comparative to budget, with no impact on the operating surplus.

Superannuation expense to the end of October, at 41.3 per cent of the budgeted annual amount, was slightly ahead of expectations due to the size of the first quarter revaluation of the outstanding unfunded liability. However, the revised forecast for remainder of the year is expected to bring the total for the year close to the original budget estimate.

Interest and other finance costs for the first four months of the year amounted to \$155.3 million, or 29.2 per cent of the budget, and is expected to generate savings of approximately \$106 million over the whole of the year. However, this saving will be offset by additional payments on behalf of the State, yet to be made, which were unspent in 1998-99 and, on 30 June, approved for carryover into 1999-2000.

Table C1: Budget sector operating statement

	(\$ million)			
	1999-00 Budget	1999-00 Revised	4 months to 31 October	Actual as % of Revised
Taxation	8 691.0	9 023.1	3 091.6	34.3
Regulatory fees and fines	246.6	274.0	96.9	35.4
Public authority income	646.8	915.9	165.9	18.1
Current grants	7 155.5	7 148.4	2 290.2	32.0
Capital grants	451.2	454.0	117.8	26.0
Sale of goods and services	1 812.9	1 812.9	568.9	31.4
Net surplus from disposal of physical assets	32.0	32.0	41.8	130.8
Fair value of assets received free of charge	0.1	0.1	0.9	765.3
Other	453.6	837.3	271.1	32.4
Abnormal revenue - public transport franchising	..	715.0	715.0	100.0
Total revenue	19 489.6	21 212.7	7 360.3	34.7
Employee entitlements	7 418.9	7 438.4	2 300.1	30.9
Superannuation	1 437.4	1 437.5	593.2	41.3
Depreciation	720.0	720.0	234.6	32.6
Amortisation	32.9	66.9	6.7	10.1
Interest and other finance costs	532.1	425.8	155.3	36.5
Current grants	2 608.6	2 928.3	1 030.1	35.2
Capital grants	700.7	551.5	162.5	29.5
Supplies and consumables	5 910.2	6 208.3	1 814.4	29.2
Other	..	..	10.0	
Total expenses	19 360.9	19 776.8	6 306.9	31.9
Operating surplus	128.7	1 435.8	1 053.4	73.4

Source: Department of Treasury and Finance

Table C2: Statement of cash flows

	(\$ million)			
	1999-00 Budget	1999-00 Revised	4 months to 31 October	Actual as % of Revised
Taxation	8 690.4	8 995.1	3 107.5	34.5
Regulatory fees and fines	246.6	274.0	96.2	35.1
Public authority income	726.2	1 032.0	199.5	19.3
Grants	7 606.6	7 612.9	2 540.2	33.4
Sale of goods and services	1 810.4	1 810.4	541.6	29.9
Interest received	54.0	51.0	17.9	35.1
Other receipts	396.6	772.0	204.9	26.5
Total receipts from operating activities	19 530.7	20 547.4	6 707.8	32.6
Employee entitlements	7 285.6	7 305.2	2 232.7	30.6
Superannuation	1 262.4	794.0	231.2	29.1
Grants	3 307.7	3 478.1	1 444.1	41.5
Supplies and consumables	5 901.7	6 215.0	1 920.5	30.9
Interest and other finance costs	532.1	432.3	119.4	27.6
Other payments	..	..	3.0	..
Total payments from operating activities	18 289.5	18 224.5	5 950.9	32.7
Net cash flows from operating activities	1 241.2	2 322.9	757.0	32.6
Net customer loans repaid	100.2	100.2	31.7	31.6
Net proceeds from investments	50.3	27.3	3.5	12.7
Term and fixed deposits	0.0	0.0	- 16.2	..
Net privatisations proceeds	..	..	- 0.0	..
Sale of fixed assets	132.2	132.2	47.2	35.7
Purchase of fixed assets	-1 123.6	-1 100.4	- 305.1	27.7
Other	0.3	0.3	- 15.8	..
Net cash flows from investing activities	- 840.6	- 840.4	- 254.7	30.3
Net proceeds of borrowings	- 399.3	-1 481.3	- 440.4	29.7
Other	..	..	..	..
Net cash flows from financing activities	- 399.3	-1 481.3	- 440.4	29.7
Net increase in cash held	1.3	1.3	62.0	..
Cash at beginning of reporting period	836.4	574.6	574.6	100.0
Transitional adjustments against opening cash balance	..	..	..	..
Cash at end of reporting period	837.7	575.9	636.6	110.5

Source: Department of Treasury and Finance

Table C3: Statement of financial position ^(a)

	(\$ million)				
	Opening Balances 1 July 1999	Movement 4 months to 31 October	Closing Balances 31 October	1999-00 Projected ^(b)	1999-00 Revised Projected
Current assets					
Cash and deposits	583.2	62.0	645.1	584.4	584.4
Investments	848.3	16.5	864.8	797.9	820.9
Receivables	771.6	- 33.2	738.4	693.8	657.0
Prepayments	81.9	269.0	351.0	81.9	81.9
Inventories	128.8	7.2	136.0	129.8	129.8
Other	348.0	0.0	2.5	2.5	348.0
Total current assets	2 761.8	321.5	2 737.8	2 290.4	2 622.1
Non-current assets					
Investments	247.7	- 1.1	246.6	247.7	247.7
Receivables	442.9	0.4	443.3	341.3	368.7
Physical assets and other ^(b)	30 358.2	738.1	31 096.3	30 628.7	31 286.5
Total non-current assets	31 048.8	737.3	31 786.1	31 217.7	31 902.9
Total assets	33 810.6	1 058.9	34 524.0	33 508.1	34 525.0
Current liabilities					
Payables	781.4	- 50.4	731.1	801.9	795.5
Borrowings	932.0	- 295.9	636.1	931.4	932.0
Employee entitlements	627.5	44.3	671.8	601.6	601.6
Superannuation	282.8	- 0.0	282.8	341.8	341.8
Other	142.9	115.8	258.7	142.1	191.8
Total current liabilities	2 766.7	- 186.2	2 580.4	2 818.9	2 862.7
Non-current liabilities					
Payables	388.2	- 10.5	377.7	372.7	372.7
Borrowings	5 781.5	- 169.0	5 612.5	5 389.6	4 292.1
Employee entitlements	1 373.1	23.1	1 396.2	1 532.3	1 532.3
Superannuation	11 249.0	362.0	11 611.0	11 365.0	11 833.5
Other	272.1	- 2.0	270.1	266.1	265.3
Total non-current liabilities	19 063.8	203.6	19 267.5	18 925.7	18 295.8
Total liabilities	21 830.5	17.4	21 847.9	21 744.5	21 158.5
Net assets	11 980.1	1 041.5	12 676.1	11 763.6	13 366.5

Source: Department of Treasury and Finance

Notes:

(a) Cash balances in this statement do not equal the cash balances in the statement of cash flows due to the inclusion of liability accounts in the statement of cash flow's balances.

(b) 1999-2000 projected estimates are equivalent to 1999-2000 published budget estimates adjusted for actual 1998-99 closing balances.

APPENDIX D: UNIFORM PRESENTATION OF GOVERNMENT FINANCE STATISTICS AND LOAN COUNCIL ALLOCATION – VICTORIA 1999-2000

UNIFORM PRESENTATION OF GOVERNMENT FINANCE STATISTICS

Under the March 1997 Uniform Reporting Framework Agreement between the Commonwealth, States and Territories, all Australian jurisdictions are required to provide timely publication of government financial data consistent with ABS Government Finance Statistics (GFS) standards for cash-based reporting.

Tables D1 to D3 below present financial information, on a GFS cash basis, for the Victorian non-financial public sector. Consistent with the Uniform Presentation Framework Agreement and the tables presented in the 1999-2000 Budget Papers, estimates are not published for the public financial sector.

Consistent with the move to the presentation of financial information on an accrual basis, all Australian governments have agreed on a new accruals-based Uniform Presentation Framework. This reporting framework has been developed consistent with accrual-based government finance statistics and is to be implemented by all jurisdictions no later than the 2002-03 budget cycle. Victoria and most other States and the Commonwealth will incorporate the new accrual Uniform Presentation Framework tables into the upcoming 2000-2001 Budget Papers.

In order to provide a link with the discontinuing cash-based uniform reporting format series, the 2000-01 Victorian Budget Papers will include a table which recasts existing general government data, as presented in Table D1 below, into the new format. Since there is no historical accrual (operating statement and balance sheet) information available, the recast information will be restricted to the government finance statistics version of the statement of cash flows.

Table D1: General government sector transactions

	(\$ million)				
	1999-00	1999-00	2000-01	2001-02	2002-03
	Budget	Revised	Estimate	Estimate	Estimate
Current outlays					
Final consumption expenditure	12 950.9	12 687.2	14 018.8	14 254.3	14 726.7
Interest and other financing costs	519.9	429.5	386.9	334.1	282.1
Subsidies to PTEs and PFIs	366.0	751.0	587.1	635.2	664.7
Current grants	1 649.7	1 749.4	1 769.8	1 831.1	1 884.4
Other current payments	276.7	292.4	204.5	199.8	199.9
Total current outlays	15 763.2	15 909.5	16 967.1	17 254.5	17 757.9
Capital outlays					
New fixed capital expenditure	1 100.6	1 031.5	1 271.4	1 344.9	1 432.2
Expenditure on secondhand assets (net)	- 11.4	- 19.5	- 8.9	3.8	28.9
Gross fixed capital expenditure	1 089.2	1 011.9	1 262.6	1 348.8	1 461.1
Capital grants	463.4	460.2	418.8	389.6	369.1
Other capital outlays	- 65.3	- 99.1	- 68.3	- 48.6	- 40.3
Total capital outlays	1 487.3	1 373.1	1 613.1	1 689.7	1 790.0
Total outlays	17 250.5	17 282.6	18 580.2	18 944.2	19 547.9
Revenue and grants received					
Taxation	8 934.0	9 242.2	7 723.1	7 316.7	7 643.7
Interest received	56.8	55.5	51.0	51.4	51.9
Grants received	7 649.4	7 756.9	9 628.3	11 190.7	11 223.4
Dividends received from PTEs and PFIs	496.5	774.5	532.2	392.7	350.3
Other revenue	533.6	943.4	845.5	772.5	744.0
Total revenue and grants received	17 670.3	18 772.5	18 780.1	19 723.9	20 013.1
Financing transactions					
Advances received (net)	- 0.7	- 0.7	319.7	- 321.1	- 0.7
Advances paid (net)	- 3.1	125.0	153.3	171.7	172.0
Net domestic and overseas borrowing	- 398.6	-1 492.6	- 663.4	- 612.9	- 616.7
Increase in provisions (net)	..	..	..	..	..
Other financing transactions	- 17.0	- 119.9	- 9.1	- 15.2	- 19.8
Total financing transactions	- 419.4	-1 488.3	- 199.5	- 777.6	- 465.3
less increase in provisions (net)	..	..	..	..	..
Deficit	- 419.4	-1 488.3	- 199.5	- 777.6	- 465.3
Net debt	4 535.3	3 435.5	3 181.3	2 332.3	1 793.2

Source: Department of Treasury and Finance

Table D2: Public trading enterprise sector transactions

	(\$ million)	
	1999-00 Budget	1999-00 Revised
Current outlays		
Interest and other financing costs	195.9	181.1
Other current payments	688.8	807.1
Total current outlays	884.7	988.2
Capital outlays		
Expenditure on new fixed assets	961.0	825.4
Expenditure on secondhand assets (net)	- 60.3	21.3
Gross fixed capital expenditure	900.7	846.7
Capital grants	2.4	2.4
Other capital outlays	- 4.1	0.2
Total capital outlays	898.9	849.3
Total outlays	1 783.6	1 837.5
Revenue and grants received		
Net operating surplus of PTEs	687.7	1 015.7
Interest received	76.5	73.8
Grants received	265.2	269.5
Other revenue	12.7	31.1
Total revenue and grants received	1 042.0	1 390.0
Financing transactions		
Advances received (net)	- 14.1	- 23.2
Advances paid (net)	81.6	81.6
Borrowing (net)	18.2	- 6.0
Increase in provisions (net)	463.2	141.7
Other financing transactions	192.7	253.5
Total financing transactions	741.6	447.5
less increase in provisions (net)	463.2	141.7
Deficit	278.4	305.8
Net debt	1 494.2	1 732.4

Source: Department of Treasury and Finance

Table D3: Total non-financial public sector transactions

	(\$ million)	
	1999-00 Budget	1999-00 Revised
Current outlays		
Final consumption expenditure	12 950.9	12 687.2
Interest and other financing costs	715.0	610.0
Current grants	1 698.1	1 687.5
Other current payments	646.4	611.9
Total current outlays	16 010.4	15 596.6
Capital outlays		
Expenditure on new fixed assets	2 061.7	1 856.9
Expenditure on secondhand assets (net)	- 71.8	1.7
Gross fixed capital expenditure	1 989.9	1 858.7
Capital grants	206.3	203.1
Other capital outlays	- 69.5	- 98.9
Total capital outlays	2 126.7	1 962.9
Total outlays	18 137.2	17 559.5
Revenue and grants received		
Taxation	8 934.0	9 242.2
Net operating surplus of PTEs	687.7	979.5
Interest received	133.2	129.2
Grants received	7 655.1	7 656.6
Other revenue	406.6	598.0
Total revenue and grants received	17 816.6	18 605.5
Financing transactions		
Advances received (net)	3.2	154.1
Advances paid (net)	58.5	17.3
Net domestic and overseas borrowing	- 380.4	-1 498.6
Increase in provisions (net)	463.2	141.6
Other financing transactions	175.7	141.2
Total financing transactions	320.3	-1 044.5
less increase in provisions -net	463.2	141.6
Deficit	- 142.9	-1 186.1
Net debt	5 994.2	5 196.6

Source: Department of Treasury and Finance

LOAN COUNCIL ALLOCATION

As required under the Uniform Presentation Framework, agreed to by the Australian Loan Council in March 1997, Table D.4 provides a revised estimate of Victoria's 1999-2000 Loan Council Allocation, which was published in the 1999-2000 Budget.

Table D4: Loan Council Allocation^(c)

	(\$ million)	
	1999-00 Budget	1999-00 Revised
(+) DEFICIT / (-) SURPLUS		
General government (+) deficit / (-) surplus	- 417	-1 615
Public trading enterprise sector net financing requirement	211	247
Non-financial public sector (+) deficit / (-) surplus ^(a)	- 206	-1 367
Memorandum items ^(b)	249	802
Loan Council Allocation	43	- 565
<i>Tolerance limit (2% of non-financial public sector revenue)</i>	353	353

Source: Department of Treasury and Finance

Notes:

- (a) *Loan Council requires non-financial public sector deficit/surplus to be reported on a Headline Deficit/Surplus basis, under which "net advances paid" is classified as part of capital outlays. Publications since, and including, the 1999-2000 Budget reflect the current Government Finance Statistics treatment of "net advances paid" which now forms part of "Financing transactions".*
- (b) *Memorandum items are used to adjust the public sector deficit/surplus to include in Loan Council Allocations 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 public sector deficit/surplus certain transactions that Loan Council has agreed should not be included in Loan Council Allocations - for example, the funding of more than employers' emerging costs under public sector superannuation schemes or borrowings by entities such as statutory marketing authorities. The net borrowings of local government and universities are also included as memorandum items.*
- (c) *Total may not add due to rounding.*

Listed below is updated information on Victoria's infrastructure projects with private sector involvement where contracts are expected to be signed in the 1999-2000 financial year.

As the following projects are still in the development stage, full details about the extent and nature of actual payments, forward commitments and contingent liabilities associated with the projects cannot be provided at present, but will be included in the 1999-2000 Loan Council Allocation outcome.

Water and sewerage

As stated in the *1998-99 Financial Report for the State of Victoria*, contracts for the Grampians Regional Water Authority project, which were expected to be signed in 1998-99, were signed in August 1999.

Health

The Government has terminated the process for delivery of the Austin and Repatriation Hospital redevelopment as a private sector build-own-operate (BOO) project.

The Department of Human Services is seeking the provision of public hospital services in Berwick, free to public hospital patients, from a private provider over a 15 year term. The Berwick Community Hospital Service Agreement, for a term of 15 years, is expected to be executed late in 1999-2000. The service provider is to accept BOO risk for the "public" hospital component of the private hospital. In the event of default by the private provider of the public services resulting in termination of the contract, the Government's termination liability to be specified in the contract is expected to be nil.

Justice

The New County Court Project was approved in December 1999 to proceed with joint private and public responsibilities for defined components of service provision. The contracts with the private proponent are expected to be negotiated and finalised by 30 June 2000. It is envisaged that full design, build, financing and ownership risks will be assumed by the private sector contractor.

APPENDIX E: BUDGET SECTOR HISTORICAL AND FORWARD ESTIMATES TABLES

Table E1 shows the trends in budget sector aggregate cash flows over the period 1984-85 to 2002-03.

Although shown as a continuous table, readers should note that 1997-98 represents a break in the information provided for certain items relating to cash flows from operating activities and investing activities. The historical data in the forward estimates system of the Department of Treasury and Finance up to 1997-98 have been classified and presented in the format comparable with information presented in the budget sector cash flow statements published in the *1998-99 Financial Report for the State of Victoria* and in the *1999-2000 Budget Statement* (Budget Paper 2). These two publications provide budget sector information for 1998-99, 1999-2000 Budget and estimates for forward years consistent with accounting standard AAS31 *Financial Reporting by Governments*.

For some items in the historical cash-based series, mainly operating payments and investing cash flows, the data were not able to be recast with sufficient accuracy to provide full comparison with this later data. For this reason the cash flow series presented below is at a slightly more aggregated level. Of greater significance, however, is that 1997-98 was the first year in which audited data was collected on a full accruals basis for the whole of the budget sector. This expanded data now includes the transactions of government schools and the arts institutions on a gross operating basis and also includes the full trading operations of TAFE colleges and hospitals, nursing homes and ambulances. Although this expanded coverage does not materially influence the net operating result for the budget sector, it does significantly increase the inflows and outflows presented in the cash flow statement.

Footnotes detailing significant year-on-year variations in operating receipts and payments and abnormal items (in the main related to major business asset sale transactions, the repatriation of surplus cash to the budget sector from non-budget agencies, and three special payments to reduce the State's outstanding superannuation liability) have been included to assist the reader in analysing the trends in the main aggregates.

Other than noting the introduction (1992-93) and abolition (from 1995-96) of the State Deficit Levy, no attempt has been made to itemise separately the effects of changes in taxation rates over the years. Where amounts have been quoted in the footnotes to the tables, these are meant to be taken as indicative of the major impact on the aggregates. In some instances subsequent less significant transactions may have occurred in the following year(s).

Table E2 shows the budget sector aggregate operating result since accrual accounts were first introduced in 1996-97.

Table E1: Budget sector cash flow statement - historical series

	(\$ million)					
	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
	Actual	Actual	Actual	Actual	Actual	Actual
Taxation ^(a) ^(b)	2 945	3 252	3 617	4 163	4 731	4 991
Regulatory fees and fines	83	75	96	96	90	105
Public authority Income	244	237	251	296	354	399
Grants ^(b) ^(c)	4 050	4 297	4 664	4 856	5 008	5 237
Sales of goods and services	554	601	633	709	786	886
Other receipts	751	819	825	808	820	823
Total receipts from operating activities	8 626	9 281	10 087	10 928	11 789	12 440
Employee entitlements ^(d)	-3 762	-4 066	-4 365	-4 711	-5 009	-5 371
Superannuation	- 256	- 298	- 351	- 375	- 492	- 561
Interest and finance costs	- 841	- 960	-1 064	-1 148	-1 238	-1 406
Other payments ^(e)	-3 902	-4 275	-4 592	-4 843	-5 299	-5 669
Total payments from operating activities	-8 762	-9 599	-10 372	-11 076	-12 038	-13 007
Net cash flows from operating activities	- 135	- 319	- 285	- 149	- 249	- 567
Sales of property plant and equipment	15	50	100	193	185	163
Purchases of property plant and equipment	- 660	- 853	- 915	- 990	-1 015	-1 051
Net privatisation proceeds and other abnormals ^(f)	..	..	35	35	35	35
Other investing activities	108	86	76	61	100	116
Net cash flows from investing activities	- 537	- 717	- 704	- 701	- 696	- 737
Net proceeds of borrowings	751	961	1 031	962	847	1 231
Other	..	..	..	..	..	..
Net cash flows from financing activities	751	961	1 031	962	847	1 231
Net cash inflow/(outflow)	79	- 75	43	113	- 98	- 72
Cash at beginning of reporting period	703	782	707	750	862	764
Cash at end of reporting period	782	707	750	862	764	691

Source: Department of Treasury and Finance

Table E1: Budget sector cash flow statement - historical series (cont'd)

	(\$ million)				
	1990-91	1991-92	1992-93	1993-94	1994-95
	Actual	Actual	Actual	Actual	Actual
Taxation ^{(a) (b)}	5 301	5 596	6 126	7 003	7 340
Regulatory fees and fines	132	182	176	181	194
Public authority Income	327	566	581	815	765
Grants ^{(b) (c)}	5 673	5 918	6 134	6 211	6 351
Sales of goods and services	941	1 007	981	977	1 006
Other receipts	695	673	586	643	608
Total receipts from operating activities	13 069	13 941	14 586	15 830	16 264
Employee entitlements ^(d)	-5 752	-6 226	-6 734	-6 328	-5 890
Superannuation	- 657	- 752	- 819	- 851	-1 116
Interest and finance costs	-1 584	-1 769	-2 046	-2 176	-2 000
Other payments ^(e)	-5 651	-6 027	-6 471	-6 348	-6 519
Total payments from operating activities	-13 644	-14 774	-16 070	-15 703	-15 525
Net cash flows from operating activities	- 574	- 833	-1 485	127	739
Sales of property plant and equipment	106	93	119	180	168
Purchases of property plant and equipment	-1 088	-1 026	-1 021	- 938	-1 247
Net privatisation proceeds and other abnormals ^(f)	1 292	6	304	498	735
Other investing activities	180	136	- 275	- 505	400
Net cash flows from investing activities	489	- 792	- 873	- 766	57
Net proceeds of borrowings	412	1 503	2 324	853	- 883
Other	..	..	..	..	..
Net cash flows from financing activities	412	1 503	2 324	853	- 883
Net cash inflow/(outflow)	327	- 122	- 34	214	- 87
Cash at beginning of reporting period	691	1 019	897	863	1 077
Cash at end of reporting period	1 019	897	863	1 077	990

Source: Department of Treasury and Finance

Table E1: Budget sector cash flow statement - historical series (cont'd)

(\$ million)							
1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Actual	Actual	Actual	Actual	Revised	Estimate	Estimate	Estimate
7 905	8 292	8 287	8 667	8 995	7 563	7 191	7 512
193	186	230	265	274	270	235	238
624	967	930	932	1 032	687	476	404
6 655	6 923	7 331	7 441	7 613	9 489	11 051	11 083
1 113	1 089	1 235	1 332	1 810	1 817	1 831	1 852
739	647	1 616	1 784	823	800	797	796
17 229	18 104	19 630	20 421	20 547	20 628	21 581	21 885
-6 164	-6 445	-6 530	-6 837	-7 305	-7 495	-7 716	-7 988
-1 007	-1 177	-1 218	-2 058	- 794	-1 368	-1 425	-1 504
-1 919	-1 400	-1 160	- 729	- 432	- 389	- 337	- 285
-6 624	-7 089	-8 872	-9 281	-9 693	-9 951	-9 976	-10 173
-15 713	-16 112	-17 780	-18 906	-18 225	-19 203	-19 453	-19 950
1 515	1 992	1 850	1 515	2 323	1 425	2 128	1 935
147	149	353	203	132	121	93	77
-1 237	-1 244	-1 160	-1 278	-1 100	-1 318	-1 397	-1 493
4 794	4 514	1 611	3 344	..	..	..	..
- 463	- 144	- 392	693	128	128	129	124
3 241	3 275	411	2 962	- 840	-1 068	-1 175	-1 292
-4 704	-5 401	-2 366	-4 705	-1 481	- 329	- 919	- 602
..
-4 704	-5 401	-2 366	-4 705	-1 481	- 329	- 919	- 602
52	- 134	- 105	- 228	1	28	34	41
990	1 042	908	803	575	576	604	638
1 042	908	803	575	576	604	638	679

Source: Department of Treasury and Finance

Notes to Table E1 – Budget Sector Cash Flow Statement

Receipts from operating activities

- (a) State deficit levy commenced in 1992-93 (\$173.2 million), ceased in 1994-95 (\$179.7 million).
- (b) Includes estimated GST effects from 2000-01.
- (c) Significant offshore petroleum compensation grants from the Commonwealth in 1990-91 (\$178.4 million) and 1991-92 (\$191.1 million, including \$60 million Rent Resource Tax compensation).

The works (capital) grant from the Commonwealth ceased in 1993-94 (\$68.3 million per annum) and Commonwealth capital grants for roads reduced from \$372 million in 1992-93 to \$199 million in 1993-94 (replaced by similar current grants for roads).

Payments from operating activities

- (d) Separation payments up to 1989-90 were mainly for early retirement and enhanced resignation packages paid as grants to the Public Transport Corporation and are included under 'other payments'. Payments in later years were for voluntary redundancy and targeted separation packages across the whole of the budget sector and selected non-budget agencies and are included under 'employee entitlements'.
- (e) Operating subsidy payments to Tricontinental Corporation commenced in 1991-92 subsequent to the sale of the State Bank. Significant payments were:

1991-92	\$150.4 m
1992-93	\$122.9 m
1993-94	\$ 52.5 m
1994-95	\$ 38.5 m

Major annual subsidy payments for electricity supplied to the Portland aluminium smelter under the flexible tariff agreement commenced in 1992-93 and ceased in 1997-98.

Cost of restructure of the Accelerated Infrastructure Program in 1994-95 (\$199.9 million)

Investing activities

(f) Privatisation and other abnormal items to the budget sector include:

1986-87 to 1990-91: payments received from former Melbourne and Metropolitan Board of Works regarding the transfer of ownership of the Thomson-Cardinia Dam \$35.0 million per annum;

1990-91: net proceeds from the sale of the State Bank (\$1 257.3 million);

1992-93: sale of State Insurance Office in (\$140 million);

1993-94: recall of capital from the Transport Accident Commission (\$1 200 million), windup of the VET (\$437.3 million), Casino licence fee (\$200 million), offset by a special payment to the State Superannuation Fund (-\$1 399 million);

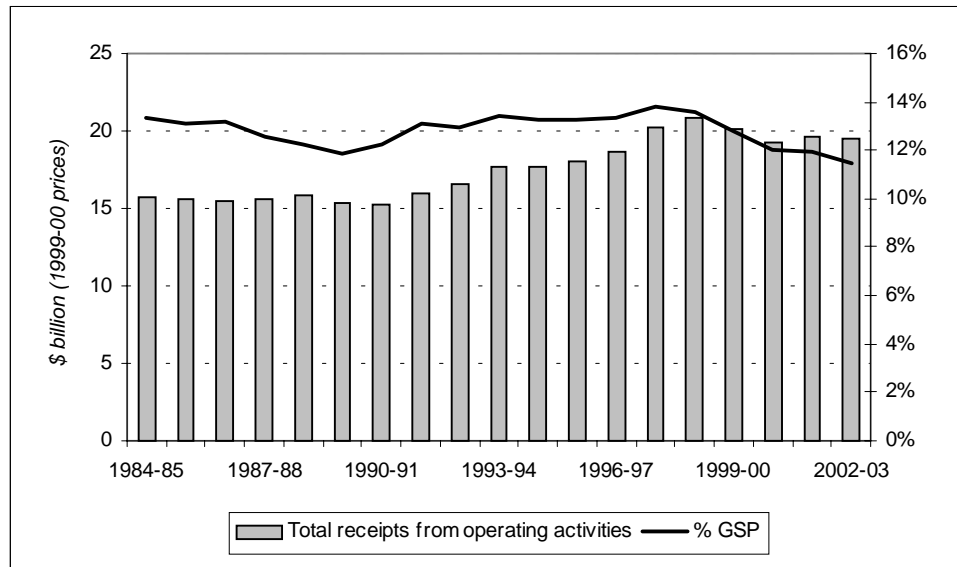
1994-95: sale of Totalisator Agency Board (\$608.9 million);

1995-96: sale of electricity sector businesses (\$4 641 million), 1996-97 (\$4 262 million), and 1997-98 (\$2 101 million) offset by a special payment to the State Superannuation Fund (\$490 million);

1998-99: sale of the remainder of the electricity businesses (\$361 million), gas businesses (\$4 690 million), Victorian Plantations Corporation (\$550 million), Aluvic (\$401 million), Vline Freight (\$20 million), offset by a special payment to reduce the State's unfunded superannuation liability (\$2 574 million).

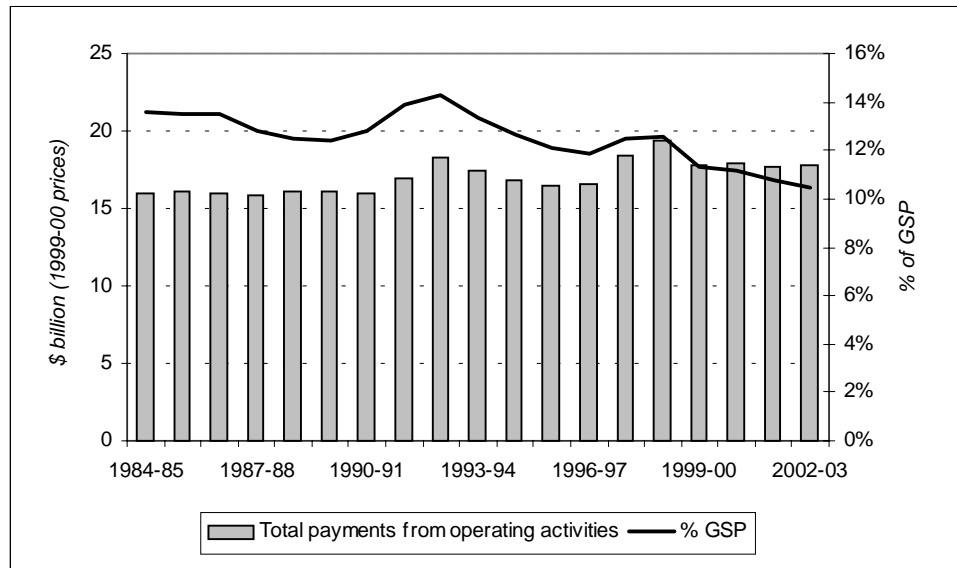
Note that the above proceeds from the sale of government businesses are the amounts paid in cash (net) to the Consolidated Fund and are not necessarily the total proceeds of sale.

Chart E1: Total receipts from operating activities - historical series



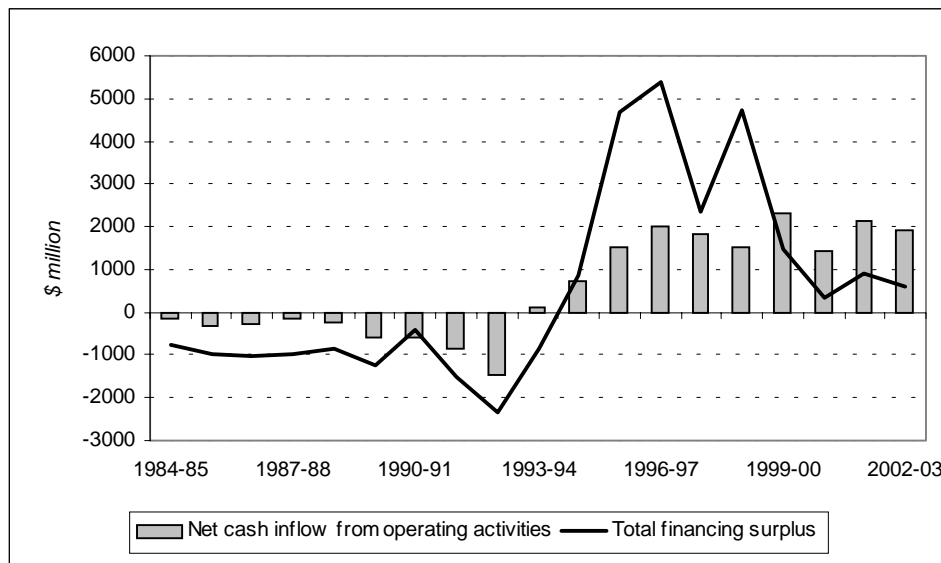
Source: Department of Treasury and Finance

Chart E2: Total payments from operating activities - historical series



Source: Department of Treasury and Finance

Chart E3: Cash budget balances - historical series ^(a)



Source: Department of Treasury and Finance

(a) Total financing represent the annual gross budget sector borrowing requirement. A negative figure denotes an increase in borrowing and a positive figure denotes repayment of borrowings.

Table E2: Budget sector operating statement

	(\$ million)			
	1996-97	1997-98	1998-99	1999-00
	Actual	Actual	Actual	Revised
Revenue				
Taxation	8 201.4	8 333.8	8 676.9	9 023.1
Fines and regulatory fees	241.7	295.8	322.7	274.0
Public authority income	969.2	947.9	996.2	915.9
Current grants	7 167.0	7 011.3	7 016.7	7 148.4
Capital grants	314.4	342.0	424.6	454.0
Sale of goods and services	1 225.1	1 222.4	1 357.0	1 812.9
Net surplus from disposal of physical assets	- 41.3	105.5	6.2	32.0
Fair value of assets received free of charge	69.8	41.7	65.1	0.1
Other revenue	581.0	1 213.9	1 705.7	837.3
Total revenue	18 728.4	19 514.4	20 571.0	20 497.7
Expenses				
Employee entitlements	6 576.2	6 656.7	6 777.1	7 438.4
Superannuation	1 382.4	1 338.5	1 379.0	1 437.5
Depreciation	675.5	734.8	745.9	720.0
Amortisation	15.5	28.3	28.0	66.9
Borrowing costs	1 946.6	1 124.6	733.2	425.8
Current grants	2 332.7	2 498.9	3 140.5	2 928.3
Capital grants	700.0	971.8	604.4	551.5
Supplies and services	4 150.9	4 976.8	5 310.0	6 208.3
Other expenses	113.4	71.6	148.4	..
Total expenses	17 893.1	18 402.0	18 866.5	19 776.8
Operating surplus before abnormals	835.2	1 112.4	1 704.5	720.8
Abnormal Items	4 330.1	2 152.6	6 136.9	715.0
Operating surplus after abnormals	5 165.3	3 265.0	7 841.4	1 435.8

Source: Department of Treasury and Finance

