

## CHAPTER 2: GENERAL GOVERNMENT SECTOR OUTCOME

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This chapter summarises and analyses the financial results of the General Government (GG) sector for the 2008-09 financial year. The actual results presented are compared with the full year revised budget estimates published in the *2009-10 Budget*.

The GG sector consists of all government departments and other public sector agencies that are controlled and largely financed by government. It excludes government-owned corporations and other bodies set up to engage in market activities, which form part of the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors.

The GG sector is primarily responsible for the delivery of government policy as set out in the annual Budget. Each year, the Government sets out its financial objectives, estimated financial statements and policy priorities for the coming year in the budget papers.

### FINANCIAL PERFORMANCE

The Government's long-term objective is to maintain a positive net result from transactions (income from transactions less expenses from transactions) which contributes to the delivery of its infrastructure objectives. In the short term, the Government's key financial objective is to maintain a net result from transactions of at least \$100 million each year. A positive net result from transactions is an important component of sustainable financial management, as it enables the Government to fund investment and keep net financial liabilities at prudent levels to maintain a triple-A credit rating. The Government's strong financial performance has been a key factor contributing to the State's continued economic stability despite the effects of the global financial crisis.

Table 2.1 shows that the 2008-09 net result from transactions was \$251 million, compared with the revised budget estimate for 2008-09 of \$243 million. This is in line with expectations and is a particularly good result in the current global financial and economic climate, given the impact of the 2009 Victorian bushfires and the continuing Victorian drought.

**Table 2.1: Summary operating statement for the period ending 30 June 2009**

	(\$ million)				
	2007-08 Actual	2008-09 Actual	2008-09 Revised	Budget Variance	% Change in Budget Variance
<b>Revenue</b>					
Taxation revenue	12 862.9	12 626.9	12 720.0	( 93.1)	( 0.7)
Interest	451.6	378.2	408.2	( 30.0)	( 7.3)
Dividends, income tax and rate equivalent revenue	759.9	490.4	474.2	16.2	3.4
Sale of goods and services	4 488.3	4 940.5	5 076.6	( 136.0)	( 2.7)
Grants	17 210.1	18 970.0	18 789.4	180.6	1.0
Other current revenue	1 567.5	1 878.9	1 683.8	195.2	11.6
<b>Total revenue</b>	<b>37 340.3</b>	<b>39 284.8</b>	<b>39 152.1</b>	<b>132.8</b>	<b>0.3</b>
<b>Expenses</b>					
Employee expenses	13 239.4	14 296.9	14 366.6	( 69.7)	( 0.5)
Superannuation <sup>(a)</sup>	1 648.0	2 013.9	2 004.3	9.6	0.5
Depreciation and amortisation	1 416.2	1 515.8	1 557.4	( 41.6)	( 2.7)
Interest expense	438.5	642.4	566.7	75.7	13.4
Other operating expenses	11 904.7	13 198.4	13 171.5	26.8	0.2
Grants and other transfers	7 046.9	7 366.3	7 243.0	123.3	1.7
<b>Total expenses</b>	<b>35 693.8</b>	<b>39 033.7</b>	<b>38 909.6</b>	<b>124.1</b>	<b>0.3</b>
<b>Net result from transactions – Net operating balance <sup>(b)</sup></b>	<b>1 646.6</b>	<b>251.2</b>	<b>242.5</b>	<b>8.6</b>	<b>3.6</b>
<b>Total other economic flows included in net result</b>	<b>(3 581.4)</b>	<b>(8 624.0)</b>	<b>(12 432.3)</b>	<b>3 808.3</b>	<b>30.6</b>
<b>Net result</b>	<b>(1 934.8)</b>	<b>(8 372.8)</b>	<b>(12 189.7)</b>	<b>3 816.9</b>	<b>31.3</b>

Source: Department of Treasury and Finance

Notes:

(a) Includes superannuation interest expense and other superannuation expenses.

(b) In accordance with AASB 1049 Whole of Government and General Government Sector Financial Reporting, unilateral bad debts are now recognised as other economic flows. The impact of this change is that unilateral bad debts now form part of the net result, rather than the net result from transactions.

The favourable net result from transactions reflects an increase in revenues when compared to the revised budget estimates. In particular, grants revenue was \$181 million higher than expected, mainly due to unbudgeted Commonwealth Government funding received for the Regional Rail Link and AusLink II projects, as well as higher than expected Commonwealth funding for financial assistance grants to local government and roads.

Other current revenue was also \$195 million higher than expected due mainly to:

- the receipt of additional unclaimed monies following the amendment to the *Unclaimed Money Act 2008*, where the period required to forward unclaimed monies to the State was reduced from two years to one year; and
- higher revenue generated by Major Projects Victoria (MPV) of \$56.1 million, mainly relating to the redevelopment of the former Kew Cottages site into a new integrated residential neighbourhood.

Sale of goods and services revenue was \$136 million below expectations due to a reduction in the sale of services and third party revenue across the GG sector. These reductions were partially offset by contributions from the State's water retailers to the Northern Victoria Irrigation Renewal Project (NVIRP).

Taxation revenue was \$93 million below expectations largely driven by a reduction in land transfer duty due to weakness in the property market in the second half of 2008-09, particularly in the non-residential sector and high-end residential market.

The GG sector outcome also reflects a net increase in expenses derived mainly from an increase in grants and other transfers of \$123 million, mainly due to the on-passing of additional Commonwealth grants to non-government schools predominantly for the Digital Education Revolution and Trade Training Centres initiatives.

There was an increase in interest expense of \$76 million primarily due to higher than budgeted finance lease interest expense incurred by the Royal Women's Hospital, a discount interest expense associated with the liability payable to the State Electricity Commission of Victoria (SECV) following a fall in the aluminium price during the year, and the impact of higher borrowings with Treasury Corporation of Victoria (TCV) to fund the increase in the Government's capital investment program.

Employee expenses were \$70 million below the revised budget estimates, broadly in line with expectations. When compared with the 2007-08 actual result of \$13.2 billion, employee expenses were \$1 billion (or 8 per cent) higher in 2008-09, mainly representing additional service delivery initiatives and general increases in the cost of service delivery.

The comprehensive financial statements for the GG sector and the state public sector as a whole for the 2008-09 financial year are included in Chapter 4.

## **Revenue**

Total revenue for 2008-09 was \$39.3 billion, \$133 million (or 0.3 per cent) higher than the revised budget estimate of \$39.2 billion.

### ***Grants revenue***

Grants revenue for 2008-09 totalled \$19.0 billion, \$181 million (or 1.0 per cent) higher than the 2008-09 revised budget estimate of \$18.8 billion. Grants include GST general purpose grants; specific purpose and national partnership grants from the Commonwealth Government (both operating and capital), largely for education, health and roads as part of the national stimulus package; and specific purpose grants for on-passing (both operating and capital), largely for non-government schools and local government. The higher than expected revenue from these sources mainly related to:

- additional Commonwealth Government funding for the Regional Rail Link project of \$150 million and roads funding of \$129 million; and
- funding of \$82 million received from the Commonwealth for additional financial assistance grants to local government.

Increases in grants revenue were partially offset by:

- a reduction in GST grants of \$29 million reflecting the impact of the global financial crisis on the nation's total GST pool;
- lower than expected Commonwealth grants for the Trade Training Centres initiative for government and non-government schools of \$77 million; and
- a reimbursement to the Commonwealth of \$51 million for the wine equalisation tax and \$65 million for the overpayment of GST small business compensation grants in 2008-09.

When compared with the 2007-08 actual result of \$17.2 billion, grants revenue was \$1.8 billion (or 10.2 per cent) higher in 2008-09, representing additional funding provided by the Commonwealth Government via the national stimulus packages.

## Taxation

As Table 2.2 indicates, aggregate taxation income for 2008-09 was \$12.6 billion, \$93 million (or 0.7 per cent) below the 2008-09 revised budget estimate of \$12.7 billion.

**Table 2.2: Taxation for the period ending 30 June 2009**

	(\$ million)			
	2008-09 Actual	2008-09 Revised	Budget Variance	% Change in Budget Variance
<b>Taxes on employers' payroll and labour force</b>	<b>3 979.7</b>	<b>4 023.5</b>	<b>( 43.8)</b>	<b>( 1.1)</b>
<b>Taxes on immovable property</b>				
Land tax	1 237.6	1 236.8	0.8	0.1
Congestion levy	44.1	42.1	2.0	4.7
Metropolitan improvement levy	107.0	106.0	1.0	0.9
Property owner contributions to fire brigades	41.4	41.3	0.1	0.3
<b>Total taxes on immovable property</b>	<b>1 430.1</b>	<b>1 426.2</b>	<b>3.9</b>	<b>0.3</b>
<b>Financial and capital transactions</b>				
Land transfer duty	2 801.0	2 894.6	( 93.6)	( 3.2)
Other property duties	8.3	8.6	( 0.3)	( 3.0)
Financial accommodation levy	30.2	26.6	3.6	13.5
<b>Total financial and capital transactions</b>	<b>2 839.6</b>	<b>2 929.9</b>	<b>( 90.3)</b>	<b>( 3.1)</b>
<b>Gambling taxes</b>				
Private lotteries	359.8	343.3	16.5	4.8
Electronic gaming machines	1 011.6	1 000.7	10.9	1.1
Casino	140.8	142.5	( 1.6)	( 1.1)
Racing	129.1	130.4	( 1.3)	( 1.0)
Other	7.3	8.4	( 1.1)	( 13.3)
<b>Total gambling taxes</b>	<b>1 648.6</b>	<b>1 625.3</b>	<b>23.3</b>	<b>1.4</b>
<b>Levies on statutory corporations</b>	<b>69.4</b>	<b>73.7</b>	<b>( 4.3)</b>	<b>( 5.8)</b>
<b>Taxes on insurance</b>	<b>1 235.4</b>	<b>1 221.0</b>	<b>14.4</b>	<b>1.2</b>
<b>Motor vehicle taxes</b>				
Vehicle registration fees	808.9	822.0	( 13.1)	( 1.6)
Duty on vehicle registrations and transfers	514.9	498.0	16.9	3.4
<b>Total motor vehicle taxes</b>	<b>1 323.8</b>	<b>1 320.0</b>	<b>3.8</b>	<b>0.3</b>
<b>Franchise taxes</b>	<b>11.8</b>	<b>11.7</b>	<b>0.1</b>	<b>0.8</b>
<b>Other taxes</b>	<b>88.5</b>	<b>88.8</b>	<b>( 0.3)</b>	<b>( 0.3)</b>
<b>Total taxation</b>	<b>12 626.9</b>	<b>12 720.0</b>	<b>( 93.1)</b>	<b>( 0.7)</b>

Source: Department of Treasury and Finance

Underpinning all declines in taxation revenue was the impact of the global financial crisis. The reduction in taxation revenue was due to:

- a \$44 million (or 1.1 per cent) reduction in taxes on employers' payroll and labour forces revenue. This small downward variation in part reflects slightly lower than expected wages growth;
- a \$90 million (or 3.1 per cent) reduction in financial and capital transactions, which mainly comprises land transfer duty. Land transfer duty revenue was \$94 million below the revised budget estimate due to weakness in the property market in the second half of 2008-09, particularly in the non-residential sector and high-end residential market; and
- a \$13 million (or 1.6 per cent) reduction in vehicle registration fees predominantly due to a reduction in the number of registrations following weakness in the motor vehicle market.

### ***Sale of goods and services revenue***

Revenue from the sale of goods and services was \$4.9 billion, \$136 million (or 2.7 per cent) below the 2008-09 revised budget estimate, reflecting the effects of the global financial crisis on the sale of services and third party revenue.

Reductions in revenue from the sales of goods and services were partially offset by contributions totalling \$67.3 million from the State's water retailers to the NVIRP.

When compared with the 2007-08 actual result of \$4.5 billion, sale of goods and services revenue was \$452 million (or 10.1 per cent) higher in 2008-09 largely representing:

- a \$266 million reimbursement from the Commonwealth Government for costs associated with the 2009 Victorian bushfires, as part of the National Disaster Relief and Recovery Arrangements; and
- contributions totalling \$67.3 million from the State's water retailers to the NVIRP.

### ***Other current revenue***

Other current revenue includes unclaimed moneys, fines, assets received free of charge and other miscellaneous revenue. For the 2008-09 financial year, other current revenue totalled \$1.9 billion, \$195 million (or 11.6 per cent) higher than the 2008-09 revised budget estimate. This was mainly due to:

- the receipt of additional unclaimed monies following the amendment to the *Unclaimed Money Act 2008*, where the period required to forward unclaimed monies to the State was reduced from two years to one year;
- higher revenue generated by MPV of \$56.1 million, mainly relating to the redevelopment of the former Kew Cottages site into a new integrated residential neighbourhood; and
- additional unbudgeted assets received free of charge by the Murray-Darling Basin Authority of \$22 million.

### ***Income from dividends, income tax and rate equivalent revenue***

Income from dividends, income tax and rate equivalent revenue was \$490 million in 2008-09, \$16 million (or 3.4 per cent) above the 2008-09 revised budget estimate, largely as a result of slightly higher than budgeted income tax equivalent receipts from water and port authorities.

### ***Interest revenue***

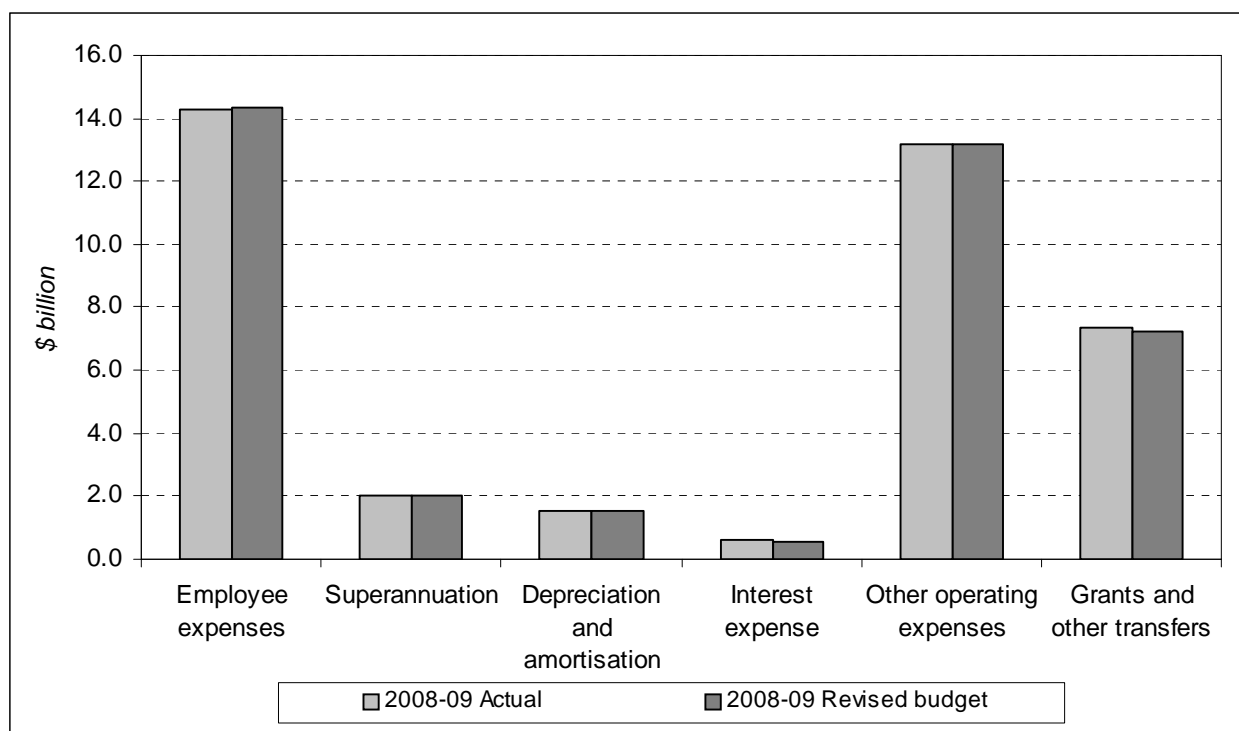
Interest revenue was \$378 million, \$30 million (or 7.3 per cent) below the 2008-09 revised budget estimate and \$73 million (or 16.3 per cent) below the 2007-08 result. This was mainly due to:

- a reduction in bank balances held by schools due to an increase in expenditure on classroom materials and technical support, and a reduction in funds received from local communities; and
- the reduction of interest rates throughout 2008-09, adversely impacting on interest revenue collected across the GG sector.

### **Expenses**

As shown in Table 2.1, GG sector expenses from transactions for 2008-09 were \$39.0 billion, \$124 million (or 0.3 per cent) higher than the revised budget estimate of \$38.9 billion.

**Chart 2.1: Total expenses by category for the 2008-09 financial year compared with the revised budget estimate**



Source: Department of Treasury and Finance

Chart 2.1 shows the major expense categories were largely consistent with the revised budget.

Employee expenses were \$14.3 billion, \$70 million (or 0.5 per cent) below the revised budget estimate, which was broadly consistent with expectations. When compared with the 2007-08 actual result of \$13.2 billion, employee expenses were \$1.0 billion (or 8 per cent) higher in 2008-09, mainly representing additional service delivery initiatives and general increases in the cost of service delivery.

Interest expense was \$642 million, \$76 million (or 13.4 per cent) above the revised budget estimate, due to:

- an increase in the discount interest expense of \$20 million associated with the liability payable to SECV following a fall in the aluminium price during the year;
- higher than budgeted finance lease interest expense incurred by the Royal Women's Hospital of \$17 million; and
- higher borrowings with TCV mainly to fund the increase in the State's capital investment program.

Grants and other transfers expense was \$7.4 billion, \$123 million (or 1.7 per cent) above the revised budget estimate mainly due to the on-passing of additional Commonwealth grants to non-government schools predominantly for the Digital Education Revolution and Trade Training Centres initiatives.

Other operating expenditure, which reflects the operating supplies and consumables used to support the Government's service delivery, was \$13.2 billion, \$27 million (or 0.2 per cent) above the revised budget estimate, which is in line with expectations.

Superannuation expense was \$2.0 billion, \$10 million (or 0.5 per cent) above the revised budget estimate, which is broadly in line with expectations.

## Other economic flows included in the net result

The difference between the net result and the net result from transactions is due to other economic flows, which include various revaluation gains and losses on assets and liabilities and provision for doubtful receivables. In particular, the non-cash impact of actuarial gains and losses associated with the superannuation liability adds substantial volatility to the net result through movements in factors such as bond rates and investment returns, over which the Government has no direct control.

In accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, the recognition of unilateral bad debts within other economic flows is being implemented for the first time in 2008-09.

Other economic flows included in the net result for 2008-09 were \$8.6 billion, of which \$7.5 billion related to actuarial losses on superannuation. A large part of this loss arose due to a fall in the discount rate that is used to value the superannuation liability, from 6.54 per cent per annum as at 30 June 2008 to 5.7 per cent per annum as at 30 June 2009. The lower discount rate caused the reported superannuation liability to increase by \$3.8 billion during 2008-09. It is important to note that changes in the superannuation liability that arise due to movements in the discount rate do not impact on the amount of cash required to fund this liability over time.

The other major component impacting on the actuarial loss on superannuation during the year was lower than expected investment returns on the assets invested by the State's defined benefit superannuation plans. This was a result of the adverse market conditions that existed throughout 2008-09.

## FINANCIAL POSITION

The Government continues to manage a strong and robust balance sheet and manage the State's net financial position at prudent levels consistent with its short and long-term financial objectives.

**Table 2.3: Summary Balance Sheet as at 30 June 2009**

	(\$ million)				
	Actual 30 June 2008	Actual Movement	Actual 30 June 2009	Budget Variance	Revised 2008-09
<b>Assets</b>					
Financial assets	8 663.4	( 184.5)	8 478.8	( 325.8)	8 804.6
Non-financial assets	65 938.9	22 476.3	88 415.2	19 793.1	68 622.2
<b>Investments in other sector entities</b>					
<i>Public non-financial corporations</i>	41 092.3	18 744.1	59 836.3	17 902.4	41 933.9
<i>Public financial corporations</i>	3 764.9	(2 966.4)	798.5	545.4	253.1
<b>Total assets</b>	<b>119 459.4</b>	<b>38 069.5</b>	<b>157 528.9</b>	<b>37 915.1</b>	<b>119 613.7</b>
<b>Liabilities</b>					
Superannuation	12 926.8	7 745.5	20 672.3	(3 767.1)	24 439.4
Borrowings	7 799.1	2 841.7	10 640.8	( 324.3)	10 965.1
Other liabilities	8 367.1	1 175.0	9 542.1	93.2	9 448.9
<b>Total liabilities</b>	<b>29 092.9</b>	<b>11 762.1</b>	<b>40 855.1</b>	<b>(3 998.3)</b>	<b>44 853.4</b>
<b>Net assets</b>	<b>90 366.4</b>	<b>26 307.3</b>	<b>116 673.8</b>	<b>41 913.5</b>	<b>74 760.3</b>

Source: Department of Treasury and Finance

As shown in Table 2.3, total GG sector net assets increased by \$26.3 billion to \$116.7 billion in 2008-09.

Financial assets include cash assets, investments and loans and placements. GG sector financial assets decreased by \$185 million to \$8.5 billion as at 30 June 2009. This decrease was largely due to:

- the reclassification from an investment in a joint venture entity to Victoria's share of jointly controlled assets, for the Murray-Darling Basin Authority; and
- the decrease in cash deposits held with TCV primarily to meet short-term cash requirements.

This reduction in financial assets was offset by:

- an increase of \$227 million in advances paid by the Department of Innovation, Industry and Regional Development (DIIRD), following the completion of the Melbourne Convention and Exhibition Centre (MCEC). The \$227 million represents DIIRD's loan receivable from the Melbourne Convention and Exhibition Centre Trust in return for the Trust's use of the new MCEC; and
- an increase in land tax receivables predominantly due to the combined effect of an increase in land tax revenue, later than usual issuing of assessments and greater use of payment by instalments.

Non-financial assets increased by \$22.5 billion to \$88.4 billion in 2008-09 and were also \$19.8 billion above the revised budget estimates. The primary component of non-financial assets is the Government's capital stock, which is driven by the acquisition of fixed assets and revaluations of property, plant and equipment. The increase in non-financial assets was predominantly due to the recognition of land under roads of \$18.7 billion and the upward revaluation of land and buildings in the health services sector of \$1.6 billion.

GG sector investments in PNFCs increased by \$18.7 billion to \$59.8 billion as at 30 June 2009, predominantly due to the initial fair valuation of infrastructure assets in the transport and water sectors.

GG sector investments in PFCs declined by \$3 billion to \$799 million as at 30 June 2009 due to lower than expected investment returns and values, an increase in liabilities due to lower discount rates used to value the claims liabilities of insurance agencies, and a revaluation of TCV borrowings.

Total GG sector liabilities increased by \$11.8 billion to \$40.9 billion. The movement is largely driven by:

- an increase in the superannuation liability of \$7.7 billion due to a reduction in the discount rate used to value the liability and weak investment markets;
- an increase in borrowings of \$2.8 billion driven predominantly by Victoria's significant investment in the State's capital program, which in previous years was funded substantially from operating surpluses; and
- an increase in other liabilities of \$1.2 billion mainly due to:
  - the recognition of the liability payable to SECV of \$523.2 million under the indemnity associated with onerous contracts, attributable to declining world aluminium prices;
  - an increase in employee benefit liabilities of \$303 million, in particular long service leave payable, due to a revaluation loss resulting from the reduction in the discount rate used to calculate the value of the liability; and
  - an increase in provisions totalling \$119 million relating mainly to the 2009 Victorian bushfires and assistance to Victorian asbestos sufferers.

## MEASURES OF FINANCIAL PERFORMANCE

Fiscal aggregates are analytical balances that are useful for macroeconomic analysis purposes, including assessing the impact of a government and its controlled agencies on the economy. These measures are derived from the information disclosed in the financial statements in Chapter 4. Four operating fiscal aggregate measures are shown in Table 2.4.

**Table 2.4: Operating fiscal aggregates**

(\$ million)

	2007-08	2008-09	2008-09
	<i>Actual</i>	<i>Actual</i>	<i>Revised</i>
Net result from transactions – net operating balance <sup>(a)</sup>	1 646.6	251.2	242.5
Net lending/(borrowing)	637.1	(1 184.4)	(1 424.1)
Comprehensive result – total change in net worth	26 360.4	26 299.8	(15 685.4)
Cash surplus/(deficit)	1 509.6	( 897.9)	(1 124.9)

Source: Department of Treasury and Finance

Note:

(a) In accordance with AASB 1049 Whole of Government and General Government Sector Financial Reporting, unilateral bad debts are now recognised as other economic flows. The impact of this change is that unilateral bad debts will now form part of the net result, rather than the net result from transactions.

The net result from transactions for 2008-09 for the GG sector was \$251 million. This measure excludes the effects of revaluations (holding and realised gains or losses) arising from changes in market prices. Key drivers of this outcome have been discussed previously.

The net lending/(borrowing) measure is equal to the net result from transactions less net acquisitions of non-financial assets. The net lending measure for 2008-09 equalled a borrowing amount of \$1.2 billion. The net lending/borrowing position reflects borrowings required to date to fund expenditure on fixed assets for infrastructure projects.

The comprehensive result (total change in net worth) measure includes the effects of revaluations arising from changes in market prices and other changes in the volume of assets. The comprehensive result (total change in net worth) was \$26.3 billion, which is equal to the negative net result of \$8.4 billion, plus other economic movements in equity of \$34.7 billion, mainly attributable to revaluations of non-financial assets. When compared with the revised budget, the comprehensive result is \$42 billion higher, primarily due to:

- an increase in investments in other sector entities of \$18.4 billion, primarily relating to the fair valuation of infrastructure assets in the transport and water sectors;
- the recognition of land under roads of \$18.7 billion; and
- a lower than expected increase in the superannuation liability of \$3.8 billion due to an increase in the discount rate used to value the liability since 31 March 2009, the basis of the revised budget estimates.

The cash surplus/(deficit) measure is equal to the net cash flows from operating activities, less net cash flows from investments in non-financial assets. For 2008-09, a cash deficit of \$898 million was recorded, compared with the revised budget estimate of a \$1.1 billion cash deficit.

**Table 2.5: Balance sheet fiscal aggregates**

	(\$ million)		
	2007-08	2008-09	2008-09
	<i>Actual</i>	<i>Actual</i>	<i>Revised</i>
Net worth	90 366.4	116 673.8	74 760.3
Net financial worth	24 427.5	28 258.5	6 138.1
Net financial liabilities	20 429.6	32 376.3	36 048.8
Net debt	2 150.0	5 291.7	5 234.5

Source: Department of Treasury and Finance

The net worth measure is equal to total assets less total liabilities. As shown in Table 2.5, the GG sector net worth increased by \$26.3 billion to \$116.7 billion as at 30 June 2009, which was driven by:

- revaluations resulting in an \$18.7 billion increase in investments at net asset value for PNFCs in 2008-09, partially offset by a reduction in net asset values of PFCs of \$3 billion driven by the effects of the global financial crisis;
- recognition of land under roads of \$18.7 billion;
- an upward revaluation of land and buildings in the health services sector of \$1.6 billion; and
- offset by higher borrowings of \$2.8 billion, driven predominately by Victoria's significant capital investment program, an increase in the superannuation liability of \$7.7 billion due to a reduction in the discount rate used to value the liability and weak investment markets.

The net financial worth measure is equal to total financial assets, including investments in other sector entities, less total liabilities. For 2008-09, net financial worth increased by \$3.8 billion to \$28.3 billion, this was predominantly due to an increase in the net worth of the PNFC sector, partially offset by an increase in the superannuation liability and borrowings, as discussed previously.

Net debt and net financial liabilities measures are discussed below.

## NET DEBT AND NET FINANCIAL LIABILITIES

The Government's commitment to sound financial management includes maintaining the State's net financial position at prudent levels in order to achieve its objective of maintaining Victoria's triple-A credit rating. Key measures of the GG sector's financial position are net debt and net financial liabilities, which are highlighted in Table 2.6.

Victoria's triple-A credit rating was re-affirmed by Moody's Investors Service in January 2009 and Standard and Poor's in September 2009. The agencies cited Victoria's strong balance sheet, diversified economy and prudent fiscal management as key reasons for the affirmation.

**Table 2.6: General government net debt and net financial liabilities as at 30 June 2009**

	(\$ million)				
	Actual 30 June 2008	Actual movement	Actual 30 June 2009	Budget Variance	Revised 2008-09
<b>Assets</b>					
Cash and deposits	2 975.0	( 129.0)	2 846.0	( 159.9)	3 005.8
Advances paid <sup>(a)</sup>	726.1	( 457.2)	269.0	( 367.0)	635.9
Investments, loans and placements	2 322.0	228.5	2 550.6	73.3	2 477.3
<b>Total</b>	<b>6 023.1</b>	<b>( 357.6)</b>	<b>5 665.5</b>	<b>( 453.6)</b>	<b>6 119.1</b>
<b>Liabilities</b>					
Deposits held	371.5	( 57.2)	314.4	( 72.2)	386.5
Advances received	2.6	( 0.5)	2.1	0.2	1.9
Borrowings	7 799.1	2 841.7	10 640.8	( 324.3)	10 965.1
<b>Total</b>	<b>8 173.2</b>	<b>2 784.0</b>	<b>10 957.2</b>	<b>( 396.3)</b>	<b>11 353.5</b>
<b>Net debt</b>	<b>2 150.0</b>	<b>3 141.7</b>	<b>5 291.7</b>	<b>57.2</b>	<b>5 234.5</b>
Superannuation liabilities	12 926.8	7 745.5	20 672.3	(3 767.1)	24 439.4
<b>Net debt plus superannuation liabilities</b>	<b>15 076.8</b>	<b>10 887.1</b>	<b>25 964.0</b>	<b>(3 709.9)</b>	<b>29 673.9</b>
Other liabilities (net) <sup>(b)</sup>	5 352.8	1 059.5	6 412.3	37.4	6 374.9
<b>Net financial liabilities</b>	<b>20 429.6</b>	<b>11 946.7</b>	<b>32 376.3</b>	<b>(3 672.5)</b>	<b>36 048.8</b>
	(per cent)				
<b>Net debt to GSP</b>	<b>0.8</b>		<b>2.0</b>		
<b>Net debt plus superannuation liabilities to GSP</b>	<b>5.6</b>		<b>9.7</b>		
<b>Net financial liabilities to GSP</b>	<b>7.6</b>		<b>12.0</b>		

Source: Department of Treasury and Finance

Notes:

(a) This equals advances paid plus investments in GG sector entities using the equity method.

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

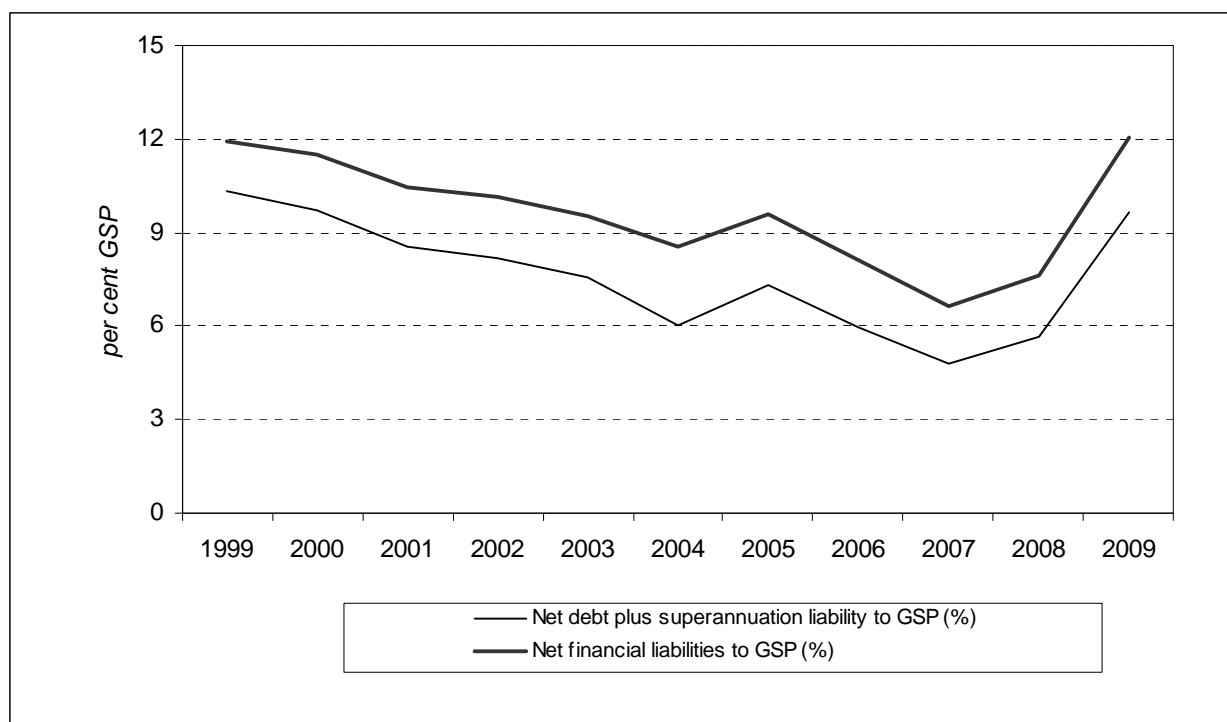
Net debt is determined by deducting liquid financial assets from gross debt. The rationale for deducting liquid financial assets is that, in a period of financial difficulty, liquid assets would be readily available to redeem debt. Net debt increased by \$3.1 billion in 2008-09, from \$2.2 billion as at 1 July 2008 (0.8 per cent of GSP) to \$5.3 billion as at 30 June 2009 (2.0 per cent of GSP). The increase in the GG sector net debt has enabled Victoria to undertake a substantial capital investment program in 2008-09, supporting the State's recovery through the global financial crisis by creating and securing jobs for Victorians.

Net financial liabilities are total liabilities less all financial assets (excluding equity). As shown in Table 2.6, net financial liabilities increased by \$11.9 billion in 2008-09, from \$20.4 billion as at 1 July 2008 (7.6 per cent of GSP) to \$32.4 billion as at 30 June 2009 (12 per cent of GSP). The increase in net financial liabilities during the year was mainly due to an increase in the superannuation liability, primarily driven by a reduction in the discount rate that is used to value the liability, as well as lower than expected investment returns on superannuation assets during 2008-09.

Net financial liabilities however were \$3.7 billion below the 2008-09 revised budget estimate of \$36 billion. This was due to a lower than expected superannuation liability as a result of an increase in the discount rate used to value the liability and improved investment returns during the last quarter of the year.

Chart 2.2 and Chart 2.3 show the trend in the GG sector net debt and financial liabilities since 1999. Despite the current global financial and economic conditions, net financial liabilities and net debt plus superannuation as a proportion of GSP remain at prudent levels.

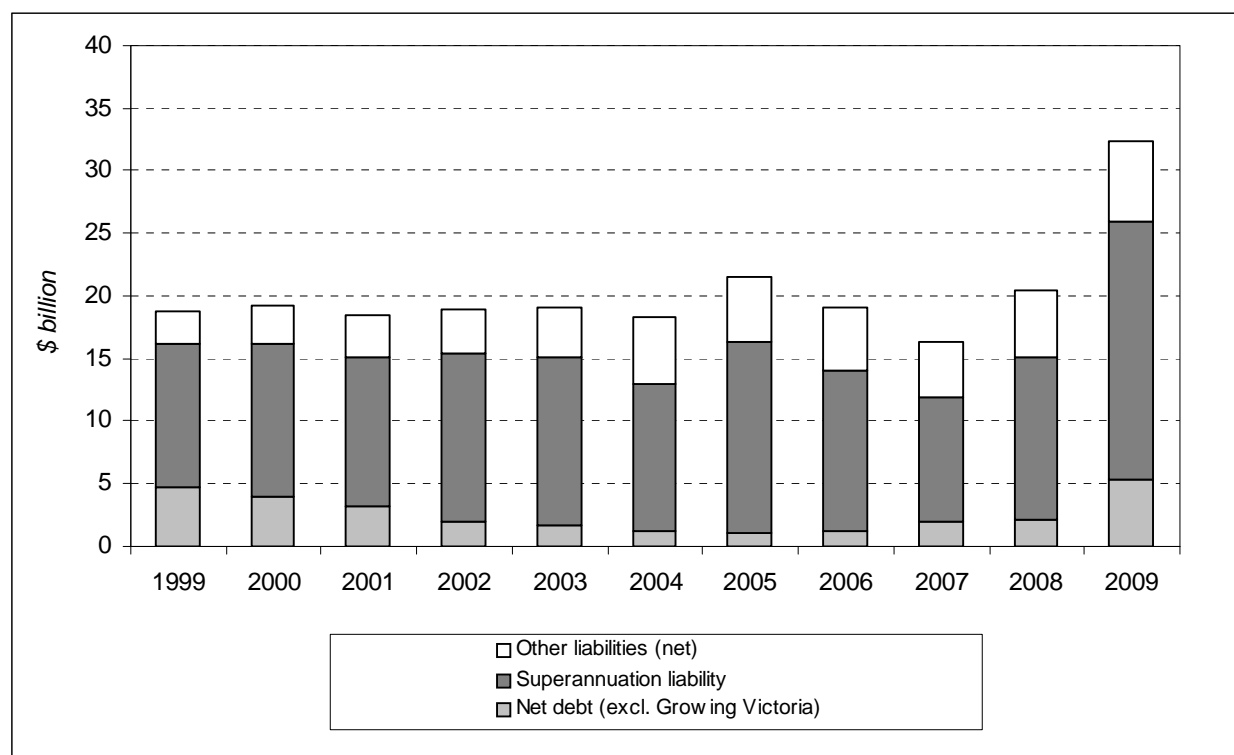
**Chart 2.2: General government financial liabilities as at 30 June 2009**



Source: Department of Treasury and Finance

The superannuation liability is in relation to public sector defined benefit superannuation schemes and represents the present value of expected future benefits that scheme members have accrued as a result of past service offset by the value of superannuation assets. As noted earlier, the increase in the superannuation liability is mainly due to a reduction in the discount rate along with lower than expected investment returns on superannuation assets during 2008-09.

**Chart 2.3: General government net debt, superannuation liability and other liabilities as at 30 June 2009**



Source: Department of Treasury and Finance

## CASH FLOWS

The Government is undertaking a substantial capital investment program in order to deliver services and secure jobs. Table 2.7 outlines the use of cash resources in funding the Victoria's capital investment program. It provides a summary of cash generated through the operations of Victorian Government departments and other GG sector agencies, and how that cash is applied to infrastructure investment.

**Table 2.7: Application of cash resources**

	(\$ million)	
	2008-09 Actual	2008-09 Revised
<b>Net result from transactions – net operating balance</b>	<b>251.2</b>	<b>242.5</b>
Add back: Non-cash revenues and expenses (net) <sup>(a)</sup>	1 729.5	1 690.3
<b>Net cash flow from operating activities</b>	<b>1 980.7</b>	<b>1 932.8</b>
Less:		
<b>Net investment in fixed assets</b>		
Expenditure on approved projects	4 319.4	4 543.1
Sale of non-financial assets	( 268.2)	( 190.5)
<b>Net investment in fixed assets</b>	<b>4 051.2</b>	<b>4 352.6</b>
Finance leases	453.4	..
Other investment activities (net)	617.7	664.6
<b>Decrease/(increase) in net debt</b>	<b>(3 141.7)</b>	<b>(3 084.4)</b>

Source: Department of Treasury and Finance

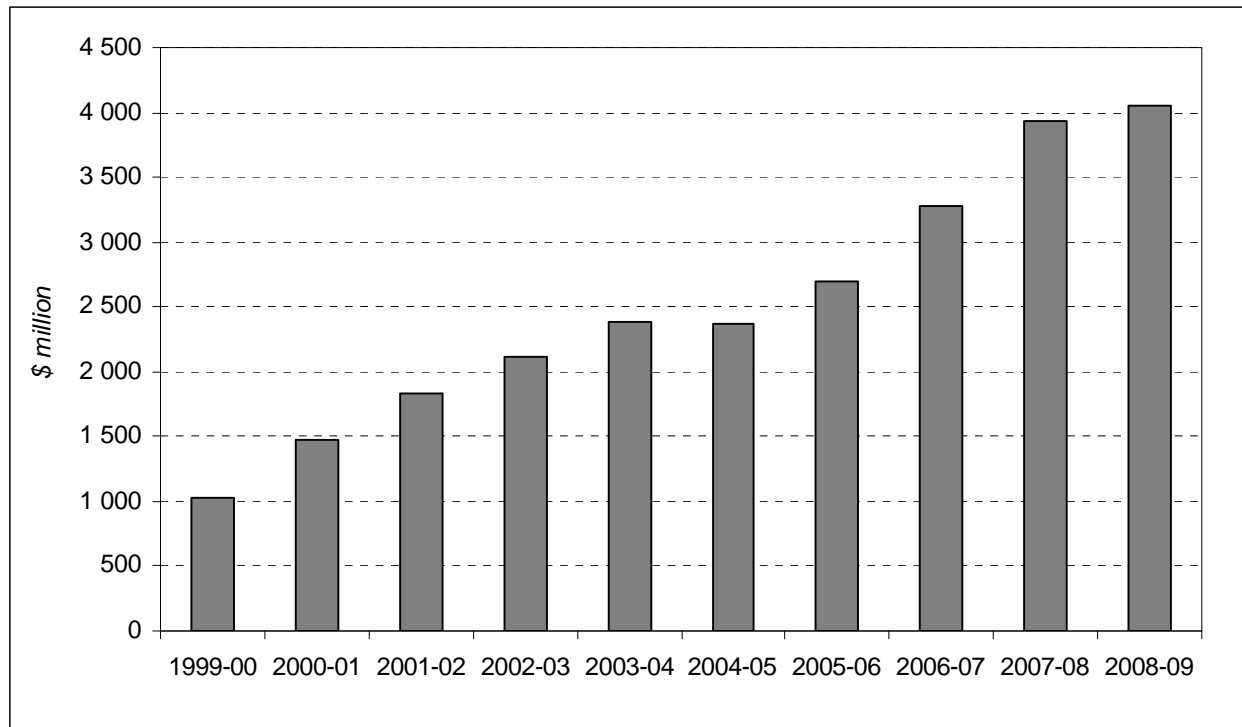
Note:

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

The increase in net debt of \$3.1 billion was primarily due to increased expenditure on the GG sector's capital program, which is funded by cash generated by operating activities as well as borrowings. In 2008-09, 39.6 per cent of the GG sector capital program was funded by cash resources.

As Chart 2.4 shows, since 1999-00 the Government has significantly increased the size of its capital program. This is indicated by the growth over the period in purchases of property, plant and equipment funded by the GG sector.

**Chart 2.4: General government net infrastructure investment**



Source: Department of Treasury and Finance

Infrastructure investment in the GG sector for 2008-09 mainly focused on transport, health, education and environment.

A detailed statement of cash flows is provided in Chapter 4.