

CHAPTER 3: STATE OF VICTORIA OUTCOME

This chapter provides a summary of the actual financial results for the State of Victoria for the 12 months to 30 June 2009. There are no budgeted results for the Whole of State outcome. Accordingly, the analysis in this chapter is largely focused on comparisons with the preceding year (2007–08).

The State comprises the general government (GG) sector which has been discussed in detail in Chapter 2, the public non-financial corporations (PNFC) sector, and the public financial corporations (PFC) sector.

The PNFC sector comprises a wide range of entities that provide goods and services (of a non-financial nature) to the public while meeting commercial principles through cost recovery via user charges and fees. The most significant Victorian PNFCs are those providing water, housing, transport and port services.

The PFC sector comprises entities that provide financial services in accordance with commercial principles. Victoria's PFCs can be categorised into two broad types:

- those that provide services to the general public and businesses, including the Transport Accident Commission (TAC), Victorian WorkCover Authority (VWA), Rural Finance Corporation (RFC), and State Trustees Limited (STL); and
- those that provide financial services predominantly to other government entities, including the Treasury Corporation of Victoria (TCV), Victorian Managed Insurance Authority (VMIA), and Victorian Funds Management Corporation (VFMC).

This chapter builds on the discussion of the GG sector results (see Chapter 2) with a summary of the overall outcome for the State. The actual results for a number of indicators of financial condition for the 12 month period are also provided. It is important to note that due to transactions occurring between the sectors, not all variations in each sector will affect the overall State outcome.

The Annual Financial Report covers the outcome for the State and is provided in Chapter 4, where the financial statements for each of the sectors contributing to the State's outcome are also disclosed.

The results for the whole of state mainly reflect:

- lower discount rates and the consequential impact on the valuation of insurance and superannuation liabilities;
- the impact of the global financial crisis on State revenues, including investment returns;
- increased capital expenditure to improve service delivery and drought-proof the State;
- the fair valuation of infrastructure assets in the transport and water sectors; and
- the first time recognition of land under roads.

FINANCIAL PERFORMANCE

Table 3.1: 2008-09 Summary operating statement – State of Victoria

	(\$million)			
	2007-08	2008-09		%
	Actual	Actual	Change	Change
Revenue				
Taxation revenue	12 697.5	12 443.6	(253.9)	(2.0)
Interest	1 300.9	1 190.0	(110.9)	(8.5)
Dividends, income tax and rate equivalent revenue	576.1	394.3	(181.8)	(31.6)
Sales of goods and services	9 752.2	10 326.9	574.7	5.9
Grants	17 108.5	18 722.6	1 614.2	9.4
Other current revenue	2 128.4	2 354.5	226.1	10.6
Total revenue	43 563.4	45 432.0	1 868.5	4.3
Expenses				
Employee expenses	13 926.9	15 037.0	1 110.1	8.0
Superannuation ^(a)	1 738.6	2 124.0	385.4	22.2
Depreciation and amortisation	2 353.7	2 544.0	190.3	8.1
Interest expense	1 151.7	1 410.1	258.4	22.4
Other operating expenses	17 706.8	19 106.1	1 399.3	7.9
Grants and other transfers	5 047.2	5 273.8	226.5	4.5
Other property expenses
Total expenses	41 924.9	45 494.9	3 570.0	8.5
Net result from transactions – Net operating balance ^(b)	1 638.6	(62.9)	(1 701.5)	(103.8)
Total other economic flows included in net result	(4 804.5)	(13 025.8)	(8 221.4)	171.1
Net result	(3 165.9)	(13 088.8)	(9 922.9)	313.4

Source: Department of Treasury and Finance

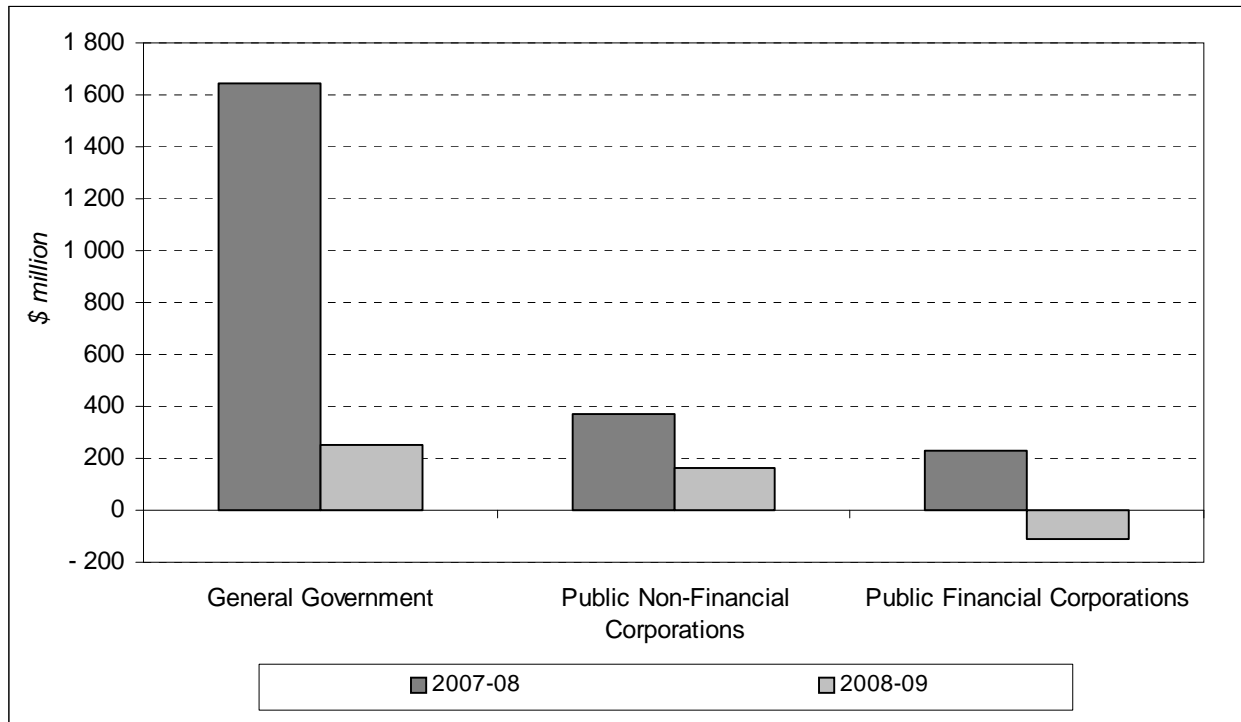
Notes:

(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 within 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 Victoria was a deficit of \$63 million. As indicated in Chart 3.1 (below) all three sectors of government (GG, PNFC and PFC) recorded declines in the net result from transactions. The PNFC sector recorded a net result from transactions of \$164 million, which is considered a sound performance given the challenging financial and economic conditions. The net result from transactions for the PFC sector was a deficit of \$111 million, which in part reflects the impact of the downturn in financial markets on the operating performance of the State's financial corporations.

Chart 3.1: Summary net result from transactions for 2008-09 by sector



Source: Department of Treasury and Finance

Operating Statement

Revenue

Total revenue increased by 4.3 per cent in 2008-09, largely driven by a 9.4 per cent rise in grants income received by the GG sector from the Commonwealth Government.

Revenue from the sales of goods and services rose by 5.9 per cent, and included a significant increase in sales of goods and services for the PNFC sector. This largely related to the impact of the metropolitan and regional water sectors.

Interest income declined by 8.5 per cent to \$1.2 billion, corresponding to a fall in interest bearing assets (including cash, term deposits and fixed interest securities) and a reduction in interest rates during the year.

Revenue from dividends, income tax and rate equivalent revenue fell 31.6 per cent to \$394 million. This mainly reflects a fall in dividend income received by the PFC sector on its equity investments, and can be attributed to the downturn in financial markets.

Expenses

Whole of State employee expenses increased by 8.0 per cent in 2008-09. For the PNFC and PFC sectors, employee expenses increased by 8.7 and 8.5 per cent respectively. The rise is consistent with that incurred by the GG sector, and reflects additional service delivery initiatives and wage outcomes.

Interest expense increased by 22.4 per cent to \$1.4 billion, reflecting a rise in borrowings across both the GG and PNFC sectors. The increase in borrowings can be attributed to the State's significant capital expenditure program, which has been undertaken to deliver essential infrastructure during a period of slow economic growth.

Other operating expenses increased by 7.9 per cent to \$19.1 billion. Within the PNFC sector, other operating expenses rose by 5.0 per cent and included the following:

- a rise in network charges incurred by Victorian Energy Networks Corporation paid to the transmission network provider for the use of the network. Fees vary from year to year due to augmentation of the network; and
- an increase in the capital assets charge incurred by Victorian Rail Track due to a higher asset base.

Within the PFC sector, other operating expenses increased 7.1 per cent, which included increases in claims expense by the TAC and VMIA, as well as payments by TAC towards Victoria's Safer Road Infrastructure Program.

Other economic flows and net result

As depicted in Table 3.1 (above), the net result for the State was a deficit of \$13.1 billion in 2008-09. The difference between the net result and the net result from transactions was the impact of other economic flows which totalled a net loss of \$13.0 billion in 2008-09.

Other economic flows include actuarial adjustments and investment gains and losses. The exclusion of these items from the net result from transactions provides a clearer representation of Victoria's underlying financial performance.

Other economic flows include the impact of actuarial losses on the superannuation liability within the GG sector which totalled \$7.5 billion in 2008-09 (discussed in Chapter 2).

Within the PNFC sector, other economic flows totalled a net loss of \$719 million. This was largely due to losses incurred by State Electricity Commission of Victoria (SECV) upon revaluation of financial assets and liabilities, following a fall in the aluminium price during the year. This is associated with the management of the contracts to supply electricity to the aluminium smelters at Portland and Point Henry.

Within the PFC sector, other economic flows totalled a net loss of \$2.7 billion, and largely reflected the impact of the downturn in financial markets. In particular, the net loss from other economic flows for the PFC sector included the following:

- an increase in insurance liabilities due to a reduction in the discount rates that are required to be used for valuation purposes;
- an increase in the market value of Treasury Corporation of Victoria's borrowings reflecting an environment of lower interest rates; and
- a reduction in the value of investment assets held by the State's insurance agencies (TAC, VWA and VMIA). This was largely made up of realised and unrealised losses on financial markets.

FINANCIAL POSITION

Table 3.2: Summary of balance sheet – State of Victoria

(\$ million)

	<i>Actual 2008</i>	<i>Actual 2009</i>	<i>Actual movement</i>
Assets			
Financial assets	37 405.8	36 053.4	(1 352.4)
Non-financial assets	112 293.6	158 200.6	45 907.1
Total assets	149 699.4	194 254.0	44 554.7
Liabilities			
Superannuation	12 958.8	20 755.1	7 796.3
Borrowings	18 026.0	25 795.8	7 769.9
Other liabilities	27 123.8	29 699.5	2 575.7
Total liabilities	58 108.6	76 250.4	18 141.9
Net assets	91 590.8	118 003.6	26 412.8

Source: Department of Treasury and Finance

As at 30 June 2009, net assets for the State increased to \$118.0 billion, which represents an increase of \$26.4 billion when compared with 2007-08.

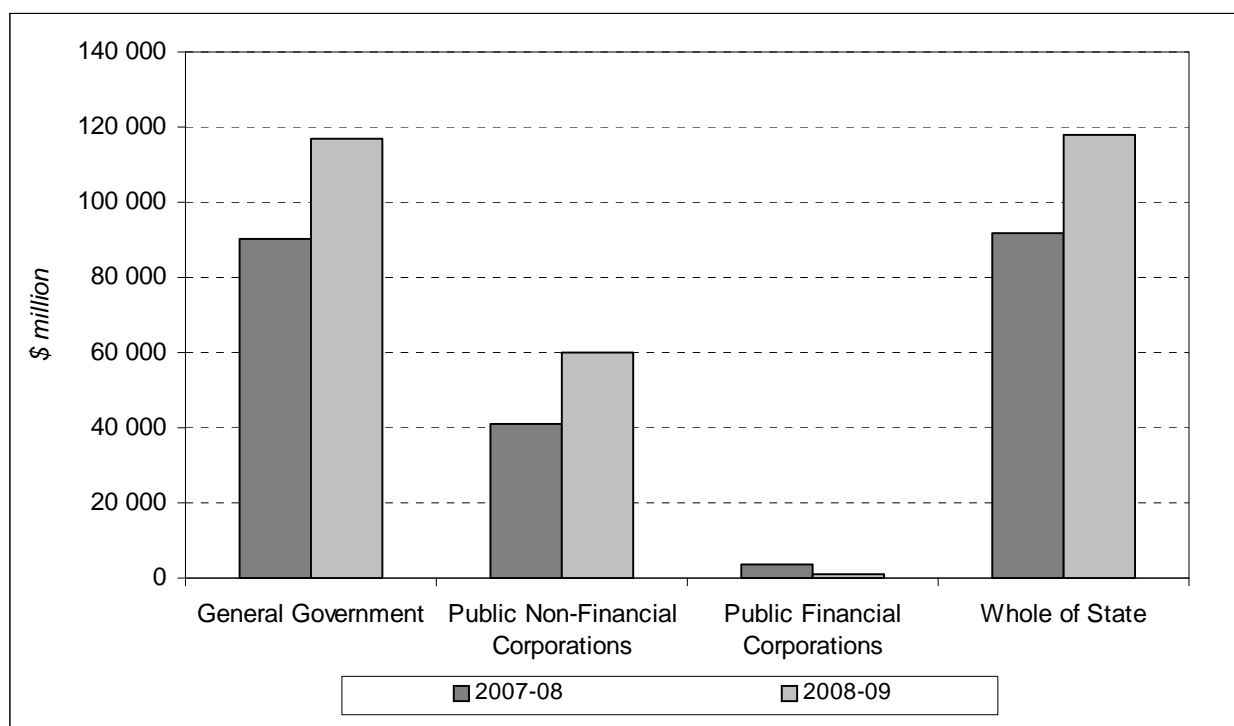
For the PNFC sector, net assets increased by \$18.7 billion, with non-financial assets (largely land, buildings and infrastructure systems) increasing by \$23.4 billion to \$69.8 billion. This was predominantly due to revaluation of transport and water infrastructure assets to fair value for the first time. In addition, the sector's substantial capital infrastructure program also contributed to the rise in non-financial assets.

The increase in net assets of the PNFC sector was partly offset by a decline in the net assets of the PFC sector, which fell from \$3.8 billion as at 30 June 2008 to \$799 million as at 30 June 2009. The decline in net assets of the PFC sector reflects the impact of the economic downturn, with lower discount rates increasing the valuation of insurance liabilities, and falls in equity markets resulting in a reduction in the value of investments, loans and placements.

Total borrowings increased by \$7.8 billion to \$25.8 billion as at 30 June 2009. This included a \$2.0 billion increase in the PNFC sector, attributed to ongoing capital infrastructure investment, particularly in the water and ports sectors.

Other liabilities increased by \$2.6 billion, which included the impact of a \$1.5 billion increase within the PNFC sector. This was largely driven by the recognition of deferred taxation liabilities associated with the revaluation of infrastructure assets in the water sector.

Chart 3.2: Net assets by sector



Source: Department of Treasury and Finance

Chart 3.2 presents the variation in net assets by sector and shows that a small decline in net assets for the PFC sector has been more than offset by an increase in net assets for the PNFC sector due to the revaluation increments recorded.

CASH FLOWS

After removing non-cash impacts such as asset revaluations, the change in operating receipts and payments for the State broadly reflect the same factors underpinning the operating income and expense movements already discussed in this chapter.

Infrastructure investment

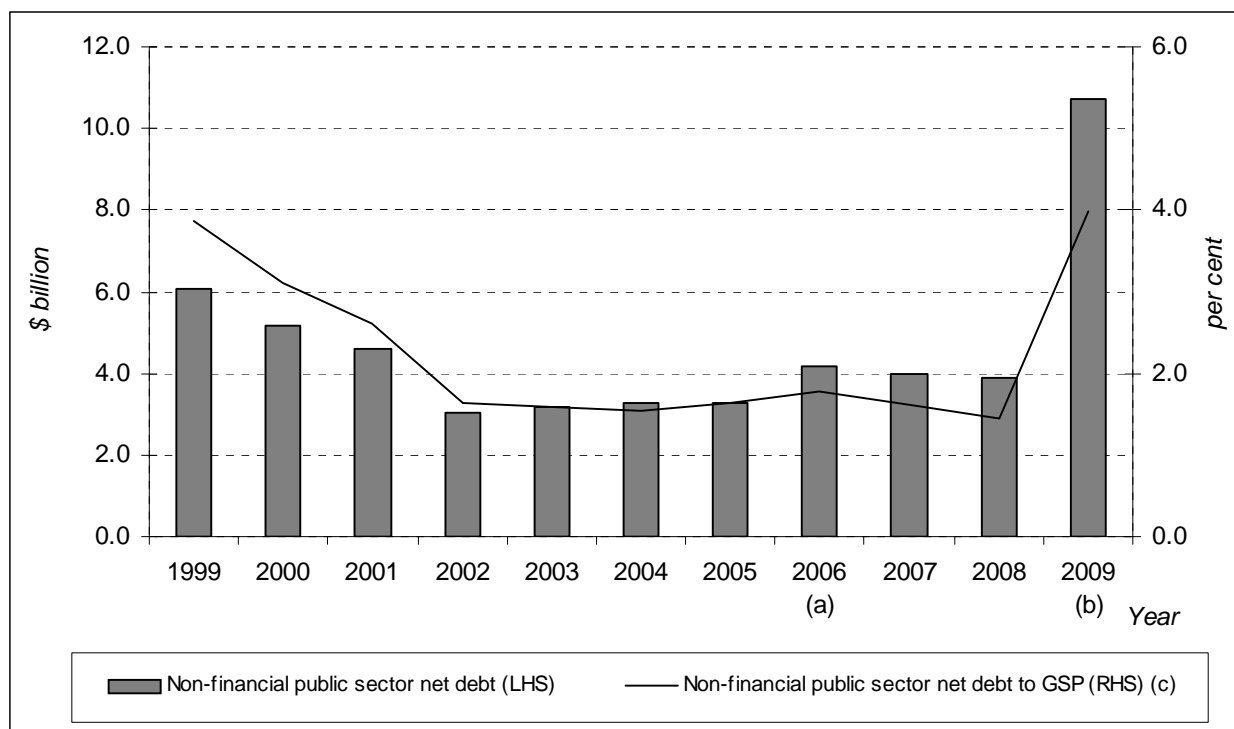
The consolidated statement of cash flows in Chapter 4 shows State net investment in fixed assets for the 12 months to 30 June 2009 totalled \$7.3 billion. This included \$4.2 billion net investment by the PNFC sector, which largely represents capital infrastructure spending in the regional and rural water corporations, public housing, port infrastructure and public transportation. Some of the key projects include:

- the Channel Deepening Project involving the dredging of Port Phillip Bay shipping channels and associated works;
- the Northern Victoria Infrastructure Renewal Project implementing water distribution and delivery efficiency improvements by 2012-13;
- the Sugarloaf Interconnector linking the Goulburn River to the Melbourne system, aiding in the delivery of water savings generated by the Northern Victoria Infrastructure Renewal Project;
- purchasing additional rolling stock to address growing demand on the metropolitan and regional rail networks; and
- constructing the Rectangular Sports Stadium in the Olympic Park precinct.

NET DEBT AND NET FINANCIAL LIABILITIES (NON-FINANCIAL PUBLIC SECTOR)

The non-financial public sector (NFPS) comprises the GG sector and PNFC sector (i.e. it excludes the PFC sector). Under the Uniform Presentation Framework adopted by all Australian jurisdictions, this is the broadest sector classification for which data is currently required to be presented. It is also the sector for which current year and forward estimates are published each year, and forms the basis of analysis and interstate comparisons by the international credit rating agencies.

Chart 3.3: Non-financial public sector – net debt as at 30 June



Source: Department of Treasury and Finance

Notes:

(a) 1999-2005 data are calculated under A-GAAP. 2006-2008 data are calculated under A-IFRS.

(b) 2009 data are calculated under AASB 1049.

(c) Historical figures are varied to reflect revisions to ABS estimates of the economy.

Chart 3.3 shows the trend in net debt, and net debt as a proportion of GSP since 1999 for the NFPS sector. The increase during 2008-09 largely reflects additional debt required to fund the State's substantial capital infrastructure program, aimed at stimulating economic growth and securing jobs, whilst enhancing the State's productive capacity over the longer term.

Table 3.3: Non-financial public sector net debt and net financial liabilities as at 30 June 2009

	(\$ million)			
	Opening 1 July 2008	Actual 30 June 2009	Actual movement	% Change
Assets				
Cash and deposits	3 896.7	3 561.9	(334.8)	(8.6)
Advances paid ^(a)	822.7	125.8	(696.9)	(84.7)
Investments, loans and placements	5 325.3	4 059.7	(1 265.6)	(23.8)
Total	10 044.6	7 747.4	(2 297.2)	(22.9)
Liabilities				
Deposits held	487.3	414.8	(72.4)	(14.9)
Advances received	2.8	2.2	(0.6)	(22.7)
Borrowings	13 412.8	18 026.8	4 614.0	34.4
Total	13 902.9	18 443.8	4 540.9	32.7
Net debt	3 858.3	10 696.4	6 838.1	177.2
Superannuation liability	12 958.8	20 755.1	7 796.3	60.2
Net debt plus superannuation liabilities	16 817.1	31 451.6	14 634.4	87.0
Other liabilities (net) ^(b)	6 651.2	7 529.4	878.2	13.2
Net financial liabilities	23 468.3	38 981.0	15 512.6	66.1
	(per cent)			
Net debt to GSP	1.4	4.0		
Net debt plus superannuation liabilities to GSP	6.3	11.7		
Net financial liabilities to GSP	8.8	14.5		

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.

Table 3.3 summarises a number of items from the statement of financial position for the non-financial public sector (NFPS).

Net debt plus superannuation liabilities increased during the year, which was largely the result of the following factors:

- an increase in the value of the superannuation liability (particularly within the GG sector), primarily due to a decline in the discount rate used to value the liability, as well as lower than expected investment returns. 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;
- a decline in investments, loans and placements reflecting (in part) term deposit balances being applied to fund investment in infrastructure; and
- an increase in borrowings in both the GG and PNFC sectors to fund capital infrastructure.

These factors also contributed towards the rise in net financial liabilities during 2008-09.

Indicators of financial condition

Key indicators of financial condition for the State of Victoria are shown in Table 3.4.

The movement in the Financial Sustainability and Flexibility ratios during 2008-09 largely reflects the impact of the State's record capital investment program which was in part funded by borrowings, and the increase in the superannuation liability, as discussed earlier in this chapter. As outlined in the *2009-10 Budget Paper No. 2*, the Victorian Government is committed to

maintaining the State's triple-A credit rating by constraining expenditure growth, maintaining an operating surplus and maintaining debt at prudent levels.

The growth in non-current physical assets during 2008–09 was largely driven by the recognition of land under roads for the first time, the fair valuation of infrastructure assets in the transport and water sectors, as well as ongoing infrastructure investment by the State.

Table 3.4: Indicators of financial condition – State of Victoria

	<i>(per cent)</i>							
	2002 ^(a)	2003 ^(a)	2004 ^(a)	2005 ^(a)	2006 ^(b)	2007 ^(b)	2008 ^(c)	2009 ^(c)
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>
Financial Sustainability								
Long-term borrowings to total assets	11.1	10.1	8.9	9.4	8.7	9.2	8.4	9.3
Total borrowings to total assets	13.5	13.6	13.0	11.8	12.3	11.3	12.0	13.3
Superannuation liabilities to total assets	13.8	13.2	10.8	8.6	9.9	7.1	8.7	10.7
Total liabilities to total assets	49.1	48.3	44.1	39.2	41.3	38.1	38.8	39.3
Long-term borrowings to GSP	5.7	5.2	4.5	5.1	4.8	5.2	4.7	6.7
Total borrowings to GSP	7.0	7.1	6.6	6.5	6.8	6.4	6.7	9.6
Superannuation liabilities to GSP	7.2	6.8	5.5	4.7	5.5	4.0	4.8	7.7
Net debt plus superannuation liability to GSP ^(d)	8.8	8.4	7.0	8.3	7.3	5.6	6.3	11.7
Net debt plus superannuation liability to revenue ^(d)	57.6	56.1	48.5	57.3	49.5	37.1	41.8	74.8
Total liabilities to GSP	25.4	24.8	22.5	21.4	23.0	21.4	21.7	28.4
Current assets to current liabilities	96.3	100.3	100.9	111.5	121.0	91.7	95.6	– ^(e)
Financial flexibility^(f)								
Borrowing costs to income from transactions	2.8	2.9	2.7	2.8	2.7	2.7	2.6	3.1
Superannuation expenses to income from transactions	8.6	8.4	1.0	1.8	5.3	4.3	4.0	4.7
Superannuation expenses and borrowing costs to income from transactions	11.4	11.3	3.7	4.5	8.0	6.9	6.6	7.8
Assets								
Growth in non-current physical assets ^(g)	7.6	7.4	9.7	13.9	5.1	5.3	11.0	41.1
Net asset investment to non-current physical assets	3.7	4.4	4.2	4.5	4.3	4.9	5.1	6.4

Notes:

(a) 2002-2005 ratios are calculated under A-GAAP.

(b) 2006 and 2007 ratios are calculated under A-IFRS.

(c) 2008 and 2009 ratios are calculated under AASB 1049 Whole of Government and General Government Sector Financial Reporting.

(d) 'Net debt and superannuation liability' is based on the NFPS, rather than on a whole of state basis.

(e) Under AASB 1049, assets are ranked in liquidity order and aggregated into financial and non-financial assets. As assets are no longer classed as current or non-current in the financial statements, the current assets to current liabilities ratio is no longer presented.

(f) Between 2002-2005 under A-GAAP, 'income from transactions' is total revenue and 'superannuation expenses' is total superannuation expense, whereas in 2006 under A-IFRS 'income from transactions' and 'superannuation expense' represent only those transactions that are directly under the Government's control.

(g) 2006 growth ratio incomparable as 2005 assets based on A-GAAP and 2006 assets have been restated on A-IFRS. The impact of A-IFRS on 2006 non-current assets is due to revaluation / reclassification of property plant and equipment balances that has resulted in a higher asset value reflected in the high growth ratio. Under AASB 1049, the fair valuation of infrastructure assets in the transport and water sectors have been recognised for the first time. Under AASB 1051, land under roads has been recognised for the first time in 2008-09.

